automotive executive

Published for America's automobile and truck dealers

March 1980

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Executive Notes

Industry news for the automotive executive

Electric Car Center. General Motors Corp. has announced the establishment of an Electric Passenger Car Project Center at its technical center in Warren, Mich. For a number of years, GM's electric vehicle developmental program has been decentralized among several staffs and divisions, with the most recent effort concentrating on battery technology.

"In making this move," GM President Elliott M. Estes said, "we are attaching the same importance to the design and engineering of a small battery-powered passenger car that we are giving to GM's other passenger cars of the future."

General Motors said it continues to have as an objective the introduction of a small electric personal car for urban and commuter use by the mid-1980s. The design target for this car is a top speed of around 50 mph, a range of 100 miles between charges and a battery that offers reasonable cycle life and replacement cost.

* * *

Turbine engine contract. The U.S. Department of Energy and the National Aeronautics and Space Administration has awarded a $64.9 million contract to Detroit Diesel Allison Division for the commercial development of a turbine engine.

At a contract-signing ceremony in Indianapolis, Ind., Senator Birch Bayh (D-Ind.) said he believes the federal government has a responsibility to assist private industry in the development of fuel-efficient, low polluting engines when it mandates fuel consumption and emission standards.

"The skyrocketing prices of gasoline and reduced supplies of fuel are making it more imperative each day that we find ways to cut down on our consumption of petroleum-based fuels," Bayh said. "The turbine engines which will be developed by Detroit Diesel Allison will serve to accomplish this goal in two ways. First of all, the new engine promises more miles per gallon. Secondly, it can burn a wide variety of fuels, including 100 percent alcohol."

* * *

Honda plant in U.S. is feasible. A feasibility study concerning the manufacture of Honda automobiles in the United States has entered the final stage according to Kyoshi Kawashima, president of Honda Motor Co., Ltd. Kawashima said the study, begun by a special project team in August of 1979, indicates Honda could begin construction of the plant in Ohio before the end of 1980.

He said Honda now sees a bright prospect for manufacturing cars in the U.S. because its motorcycle production operations in Ohio, underway since last September, have convinced the company of exceptional quality labor and a very favorable reception from the local communities.

Kawashima further said the present plan calls for construction of an automobile plant capable of producing 10,000 cars a month with a total investment of $200 million. It would employ an estimated 2,000 persons with production beginning about two years after construction starts.

* * *

Ford takes truck sales title. Ford dealers once again are the truck-selling champs of the industry. During 1979, they sold 1,145,895 units and captured the number one position for the third consecutive year and for the seventh time in the decade of the Seventies.

According to Philip E. Benton Jr., Ford vice president and Ford Division general manager, the company outsold its nearest competitor by 41,279 units. Calendar-year sales by line broke down this way: Bronco—69,724; Econoline—169,545; Courier—78,088; light conventional—736,037; medium trucks—53,620; and heavy trucks—38,881.

* * *

Dealer TV ad winners. The Television Bureau of Advertising has announced its selection of the best TV ads by automobile dealers in the United States for 1979. The winners by size of advertising market were: ADI 1-25—Euro Motor Cars, Bethesda, Md., and Ray Oldsmobile, Park Ridge, Ill. (tie); ADI 26-100—John Hurley Chevrolet, Charlotte, N.C.; and ADI 101 and above—Williams Chevrolet, Colorado Springs, Colo.

In the dealer association category, New England Ford Dealers Association, Boston, Mass., won the ADI 1-50 class and Jacksonville (Fla.) District Ford Dealers won in the ADI 51 and above.

* * *

Van and light truck show set. The Recreation Vehicle Industry Association has announced plans to sponsor its first recreational van and light truck show. The new show will be held May 14-18 at the Las Vegas Convention Center.

Primarily designed for automotive dealers, the RVIA exhibition will feature commuter vans, leisure vans, utility vans, van campers, converted pickups and four-wheel-drive vehicles, and new wide-body vans. Lightweight six-cylinder vans will be one of the features of the show with both turbocharged and overdrive units on display. Dealers also will have an opportunity to see many of the propane and diesel-powered vehicles now on the market.

"Vans and light trucks have undergone significant changes in the past year," show chairman Charles Ornduff said. "We're pro-

Executive Notes—

ducing products now that will be of great interest to new car dealers, and they'll have the opportunity to see all of the new units at this show."

* * *

Subaru named 'most profitable'. What's the most profitable public company in the United States with annual sales over $300 million, based on the return on equity and total capital? According to a study by *Forbes* magazine of the 1,030 largest U.S. publicly owned companies, it's Subaru of America, Inc.

The magazine's annual study indicated that Subaru of America has averaged better than a 72 percent return on equity during the five-year period utilized in the survey. Subaru also averaged 67.2 percent return on total capital during this period. In addition, the New Jersey-based import automobile company is listed in the top position in the auto industry in terms of average sales growth over the past five years, with an average increase exceeding 44 points.

* * *

States eyeing fuel tax boost. At least 27 of the state legislatures meeting in 1980 are expected to consider bills to raise their motor fuel taxes with either a single-step boost of the flat cents-per-gallon tax or a shift to some other method of motor fuel taxation.

According to the Highway Users Federation, the 27 states considering such taxes are: Alabama, Alaska, Arizona, California, Connecticut, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Mexico, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Virginia, Wisconsin and Wyoming.

At least 11 of those state legislatures are expected to consider bills proposing a flat cents-per-gallon tax increase. They are Arizona, Idaho, Kentucky, Maine, Maryland, Massachusetts, Minnesota, North Carolina, South Dakota, Virginia and Wisconsin.

In a total of 26 states, including some of those considering flat cents-per-gallon boosts, lawmakers are expected to consider legislation that proposes other methods of motor fuel taxation. Among the other methods are a percentage motor fuel tax assessed as a fixed percent of the fuel price; and a variable cents-per-gallon tax whereby the tax rate slides up or down periodically, with high and low limits set by law.

* * *

CORPORATE ANNOUNCEMENTS **General Motors** is preparing to embark on the biggest assembly plant modernization program in its 71-year history, according to GM Chairman Thomas A. Murphy. As the first step in this multi-billion dollar program, plans are underway to seek approvals and permission for the construction of two new passenger car assembly complexes as replacement for two existing assembly facilities, one in southeastern Michigan and one in Missouri. One of the new assembly facilities would replace the production of the Pontiac Motor Division assembly plant and its companion Fisher Body facility, and the other would replace the production of the aging and landlocked GM Assembly Division plant in St. Louis . . . .

International Harvester has announced an agreement in principle to acquire 35 percent ownership of the Spanish truck maker, Enasa (Empresa Nacional Autocamiones, S.A.) from an agency of the Spanish government. Financial details were not revealed. The agreement is designed to strengthen Enasa's and International Harvester's penetration of the European truck market when Spain becomes part of the European Common Market in 1983, and to improve Enasa's export potential to Latin America and North Africa . . . .

Autocar, a companion of **White Motor Corp.**, is heading west from Exton, Pa., to Ogden, Utah. White says the move of Autocar assembly to its Utah plant and the concurrent transfer of Autocar parts production to White's Cleveland, Ohio, plant, will take place during the first half of this year. Production of White and Western Star trucks now assembled at Ogden will be consolidated with other production at New River, Va. The program, the company says, will improve White's plant utilization and will improve the competitive position of the Autocar nameplate . . . .

Another announcement from White Motor Corp. notes the company has a new executive vice president and chief operating officer. He's veteran truck man **Keith P. Mazurek** . . . .

A major plant expansion by **Pontiac Motor Division** will nearly double daily production capacity of the General Motors 2.5 liter four-cylinder engine. A 390,000 square-foot structure will be added to Pontiac's chassis parts plant, enabling L-4 engine production capacity to be increased from the current daily capacity of 2,500 to a capacity of 4,600 per day during the 1982 model year . . . .

Toyota dealers in the U.S. now have the option of two warranty compensation rates. Dealers can opt for a warranty labor rate equal to the dealership's retail hourly rate or may establish a rate based on the dealership's service operating costs. The dealer decides which method is best suited for the dearlership . . . .

Mercedes-Benz of North America has opened a new commercial vehicle service training center in the Chicago suburb of Franklin Park. M-B says the facility will provide technical support to dealers and customers through the training of service technicians in the proper maintenance of Mercedes-Benz diesel trucks. . . .

Saab-Scania of America, Inc. announces that, in order to meet the increasing demands for the Swedish Saab automobiles and also for parts and services, the company has opened a new regional office and warehouse facility in Carson, Calif.

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...tured left to right: Ronald Jelosek, Dealer; Rodney Rader, Sales Representative, 'TekTor ...lahoma; Gary Litrell, General Sales Manager.

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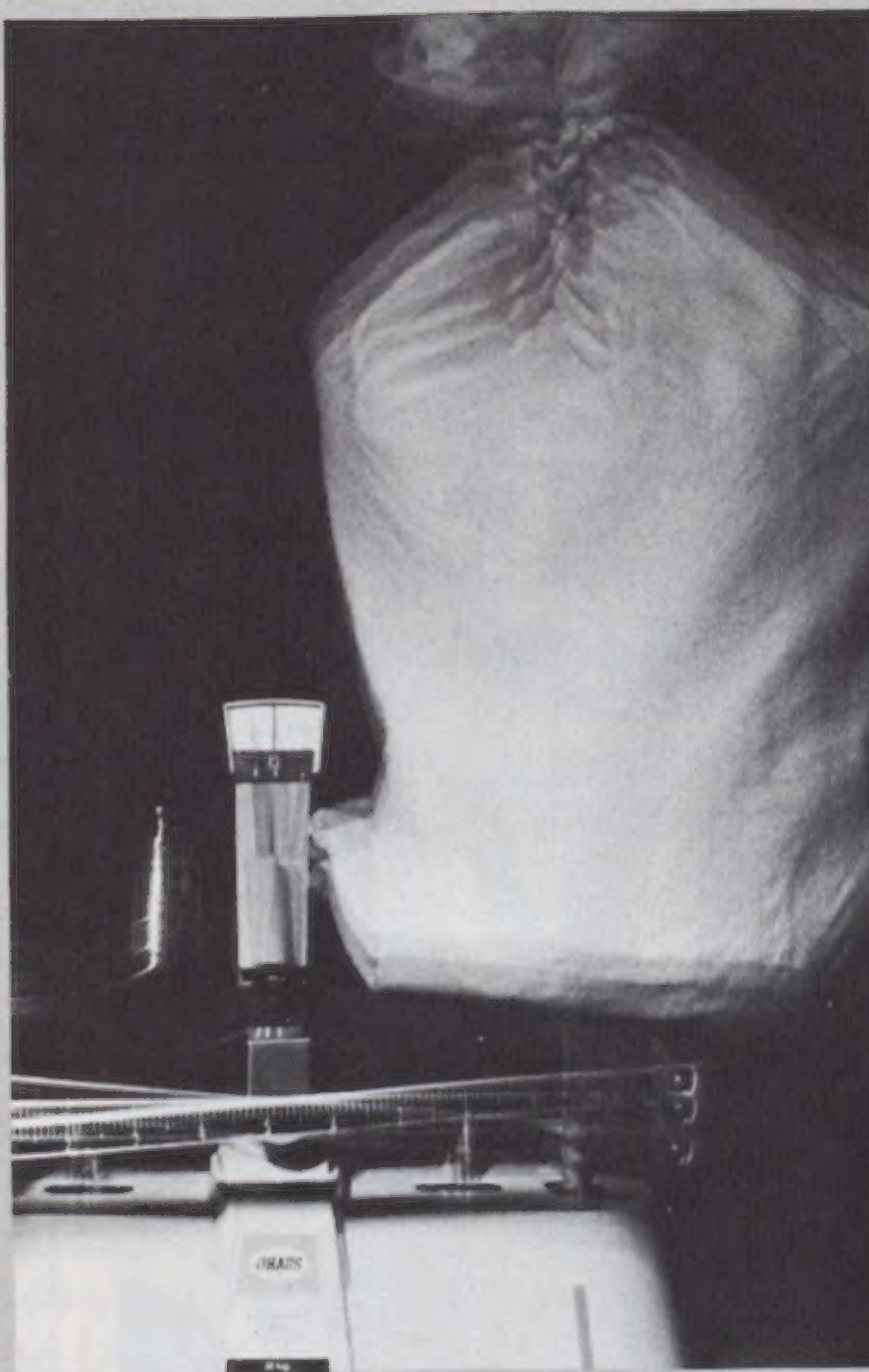

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FEATURES

DEPARTMENTS

Editor's Note: In last month's convention issue, we inadvertently listed Henry A. Billion, rather than John M. Hillard as the NADA Director for South Dakota. We apologize for the error.

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Tax Brakes

Irving Blackman

The Gift-Leaseback Game Plan

Shifting income to a family member in a low tax bracket is one way of winning the tax game. The gift-leaseback, for example, is a neat and easy tax maneuver of this kind. Everyone likes the method except the IRS but, in the recent Quinlivan case, the circuit court (44AFTR 2d 79-5059) gave its stamp of approval.

The case and the facts are important because many taxpayers should be able to play, win and benefit from the same game plan. Here's how it went:

Two lawyer-brothers set up valid short-term trusts (irrevocable for more than 10 years) for the benefit of their children. They transferred a building which they owned as tenants-in-common to a bank as trustee of separate trusts. Gift taxes were paid as required on the transfer. Neither the taxpayers nor their wives were in any way connected with the bank. The brothers then leased the building back from the trust for three years with an option to renew at terms to be agreed on. The rental payments (which the IRS agreed were reasonable) were deducted by the brothers' law firm. The trust beneficiaries (the brothers' children) reported the income on their tax returns.

The IRS argued that: (1) the taxpayer must show a business purpose for the transaction as a whole; (2) no business purpose can be shown for the gift of the income-producing building to the trust; and (3) in fact, the sole objective of the entire transaction was tax avoidance. The court leveled all IRS arguments holding that the gift itself did not require a business purpose.

You, too, should be able to successfully beat back an IRS attack on a trust (gift)-leaseback situation if you meet the following four requirements:

1. After the gift, the grantor of the trust must not retain substantially the same control over the property as he had before making the gift. (In my opinion, an independent trustee is a must!)

You, too, should be able to successfully beat back an IRS attack on a gift-leaseback situation if you meet the proper requirements.

2. The leaseback is in writing and the rental amount is reasonable.

3. The leaseback (as distinguished from the gift) has a bona fide business purpose.

4. The taxpayer must not possess a disqualifying "equity" interest in the property. (The reversionary interest—to receive the building back from the trust after 10 years—did not amount to such a disqualifying equity interest in this case.)

Your professional tax advisor also will want to take a look at an older tax court case (Mathews, 61 TC 12, 1973 and Section 162 (a) (3) of the Internal Revenue Code).

* * *

Can you pay your qualified plan with a note? Sometimes the cash crunch is so severe a corporation buys time by paying its obligations to a qualified pension or profit-sharing plan with its own note. Don't do it! Such a payment is *not* a deductible contribution. Neither a high rate of interest, short payment date, nor even using corporate assets to secure the note will save the deduction. So the Supreme Court ruled in a 1977 case.

The IRS has distinguished that case and will allow a third-party note to be used as payment of an obligation to a qualified plan and give rise to a contribution deduction. (See Letter Ruling 7852116.)

* * *

IRS regulation backlog rises. The business of government regulations is big business. And you can count on the IRS to do its part. A late 1979 IRS regulations status report (November) reveals that 47 percent (141 out of a total 296) of current regulations projects are pending. This is an 8 percent jump over October. In comparison, the June 1979 regulations status report indicated a backlog of only 35 percent.

In a word, my comment is *nonsense!* We need less, not

These columns are prepared by Blackman, Kallick & Co., certified public accountants, under the watchful eye of Irving Blackman. Blackman, also an attorney and author of Winning The Tax Game, *consults with businessmen around the country on the subject of taxes and profitability. Questions concerning these columns should be addressed to Blackman, Kallick & Co., 180 N. LaSalle St., Chicago, IL 60601.*

more regulations. The law is too complex to start with; regulations only further complicate the tax maze. Reports like the above only emphasize the hopelessness of government regulations. If the government (and there's a bunch of people working on 'em) can't even keep up with *writing* the regulations, how will each individual taxpayer be able to read, interpret and apply those regulations to real life tax situations?

It shouldn't work that way, but the IRS' problem is *our* problem—our problem as taxpayers. As much as I hate to admit it, guys like me (and the tax people in my office) have trouble keeping up with new tax laws and regulations. Result? It's more and more likely (with or without professional help) to miss a tax break or file an incorrect tax return.

What to do? Take pen in hand and write to your elected representatives in Washington—those in both the Senate and the House. It seems they listen better in an election year. Æ

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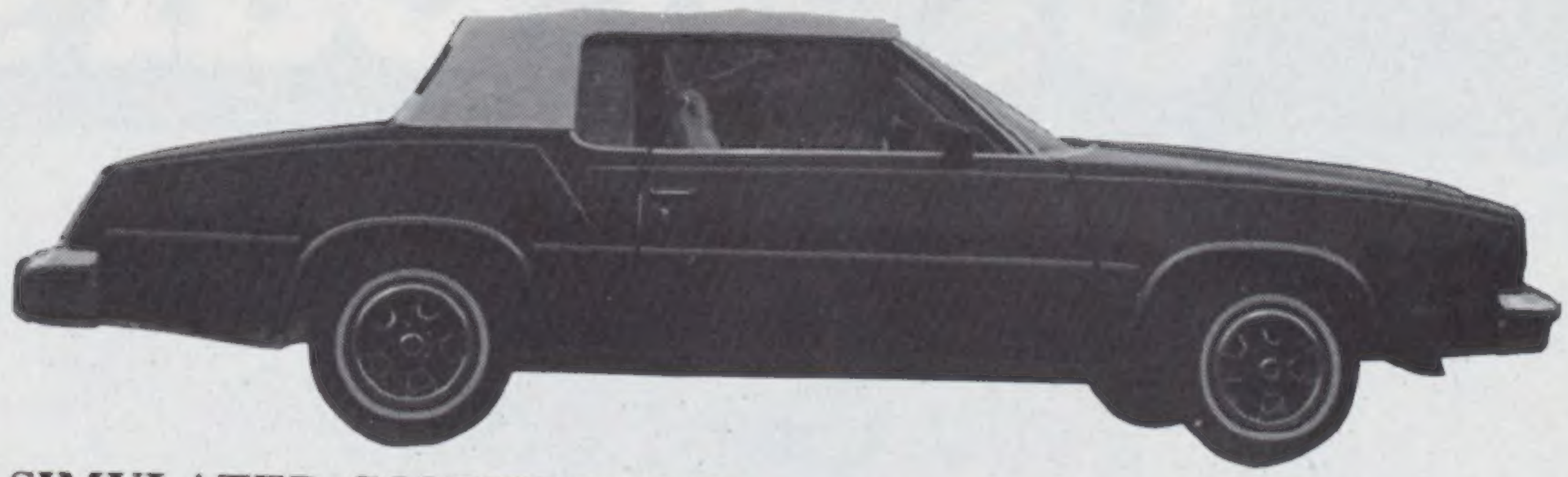

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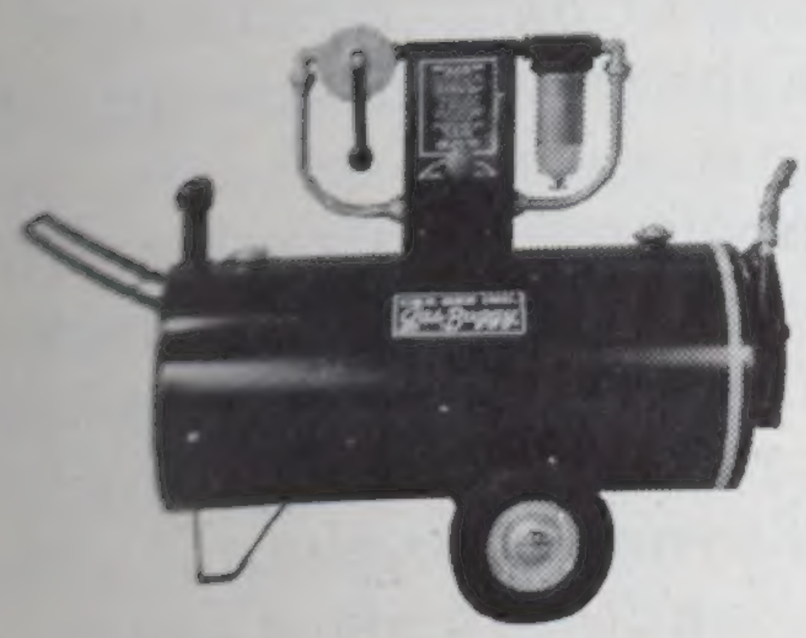

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Used Cars


James "Harry" Lawrence

We Get Letters . . .

A number of times in the past I've mentioned that we like to receive letters from the field because we feel it's the best way to keep our finger on the pulse of the auto retail industry. Here's one we thought would be of interest to our dealer-readers, especially the 14,000 or so who fall into the "small dealer" category. The writer is A. P. Bohannon III of Altavista Motors in Altavista, Va.

Dear Harry,

I have enjoyed your articles in AE *and the* Used Car Guide *very much. Your style of writing is easy to read and makes me think hard about your subjects. Maybe you should have been a writer.*

I am a Ford-Mercury dealer in a small "blue-collar" town. I took over the business from my father who started the dealership in 1937. I have been in the business for eight years now and I still have more questions than answers about this automobile business.

Since I have been in the business I have found used cars to be my "pet" profit center. I was glad to read in the December Guide Book *about Eastwood Chrysler that retails everything in used vehicles. We do the same here and I have found this is different from most dealers, but my bottom line says "do it!"*

Perhaps, because we are located in a town where there are a lot of blue-collar workers, this gives us a market for older high-mileage cars. I know this is not feasible for a lot of dealers, but the point I am making is "know your market and fill its needs."

On the other hand, we have difficulty selling late model, high-priced used cars. Of course, our past experience with certain models makes us stop and think real hard when we do an appraisal on a potential trade-in. I wonder if we make or lose some deals because we are over or under appraising a model because of a past experience. Have you ever heard the following comments?

"Somebody once told me to fill the needs in my market and the profit would come. It's true!"

- *"I don't care what the book value is, that kind of car just won't bring that much!"*
- *"Look at those fancy wheels and paint stripes! Who would buy a car like that."*
- *"If we raise our appraisal $200, we can deal with him?"*

I think it is hard to be 100 percent objective when appraising a used vehicle. I sure can't see why a car's ACV goes up $200 in five minutes because a customer is going to walk. I know that if one of my salesmen has a customer on a new vehicle that has been in stock for 120-150 days, that used car sure looks nice to me. It doesn't look as good, however, when its been on my used car lot 120 days and I realize I have too much in it.

Here are a few questions I have:

- *Is the "art" of putting the ACV on a vehicle a science or a guessing game?*
- *How do you know within $200 to $300 what a used vehicle is really worth?*
- *Is it this $200-$300 range in appraisals that causes us to lose deals or end up with low grosses? Or high grosses?*

I guess the big gross helps offset the low gross, so I look for a good average.

These are just some of the questions I have about used cars.

I do know one thing, if a dealer gets involved in used cars, it can be very profitable. Somebody once told me to fill the needs in my market and the profit would come. It's true!

Sincerely,
A. P. Bohannon III

* * *

We don't receive as much mail as we would like—perhaps no one reads this page. In fact, most of our contacts are via the telephone with reporters or writers who seek either information or data to substantiate what they have already written.

* * *

Speaking of articles, Our magazine—the February issue I think—ran an article on used cars and two of our good friends Vic Snyder of Southern California and Frank Davis of

The Used Car column is prepared exclusively for **automotive executive** *by James H. "Harry" Lawrence, editor of the NADA Official Used Car Guide. All comments or questions pertaining to these columns should be mailed to: "Used Cars,"* **automotive executive** *magazine, 8400 Westpark Dr., McLean, VA 22102.*

Nashville, were contributors. I had suggested each as a possible candidate for the centerfold, but evidently neither made it.

We don't keep such "girlie" magazines around our house, but we did buy this one. We were astonished by our 13-year-old son's interest in used cars! I'll bet he's read that article at least 10 times.

* * *

Getting back to business, no one will question that things are slow at this writing (it's January 30), but some dealers tell me things are picking up. Most of those dealers who are reporting "fair-to-middling" business have also observed they are working harder. Who was it who said, "The harder I work the luckier I get?"

I think this is a good time to eat my crow and be done with it. Unless conditions are reversed in the near future, the cost of gasoline will have a substantial impact on car-buying habits. I guess $1.18 for a gallon of gas is one thing and a $20 fill-up is another. Æ

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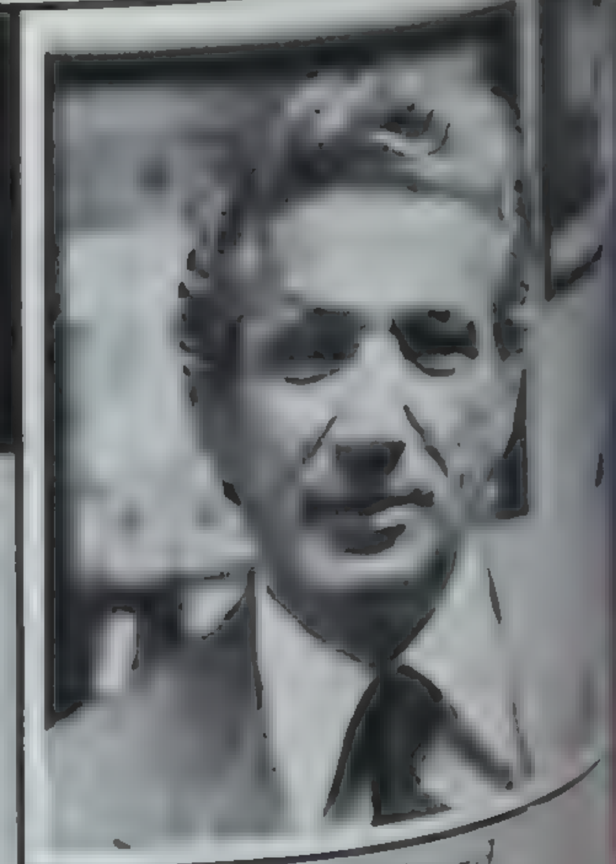

Joe Girard

Know What You're Selling

Whenever I'm lecturing or writing articles or appearing on radio or television, I try to include one very important thought to my readers or listeners: "If you want to sell yourself successfully, are you sure you know what you've got to sell?"

Actually, I'm asking people to take an inventory.

As the world's number one retail new car salesman, I know that I'd have a tough time meeting a customer's wants and needs if I didn't have a handle on what's in my inventory. Or, if it isn't there, where can I get it? Maybe even a better way of saying it is *taking stock.*

In my professional life I have two sources: what's listed on the board and what's on the dealership lot. In order to serve a customer I have to know what I've got and if I haven't got what it takes to sell that customer, I risk losing him.

Day after day after day people are making an effort to sell themselves—and too many are failing because they're not selling what they *have,* but are trying to sell what they're *not.*

Recently I made a swing around the United States and parts of Canada promoting one of my books. I was a guest on a number of TV and radio talk shows. I knew there were two things I needed to sell: the book in question and myself.

It would have been pointless for me to face those various question-and-answer sessions by trying to sell my viewpoints on sex education or the Panama Canal Treaty. That was not what I was there for.

I felt extremely sympathetic toward a young man who shared one of the appearances with me on a midwest talk show. He was a local singer, and for all I know a good one, who was appearing

. . . people are making an effort to sell themselves—and too many are failing because they're not selling what they have . . .

with some success at a popular supper club. He had just cut his first record, a rock ballad, and he was promoting it. Or he was *supposed* to be promoting it.

Here was a great opportunity to sell himself and his record but, to my way of thinking, he blew it. He talked about the management of the supper club as if he had to sell it. He talked about the chances of the local hockey team as if he had to boost ticket sales. He talked about taking flying lessons and that he hoped to solo in three weeks. In short, during the seven minutes given him, I don't believe he spent 60 seconds talking about his career, his record or his goals. He had neglected to sell his real product, presented with enthusiasm, to waiting customers.

Granted, it wasn't easy for him. He was nervous and the interviewer didn't help matters much. Still, it shows how important it is to know what we have to sell—and display it at the right time to the right people.

You will not sell yourself very well if you only talk about your interest, tropical fish, when the other person's chief concern is zero population growth. It shows your inventory is low in ability to relate to another person's interests.

But you will be selling yourself if you remember to, as every good salesman knows, fit product to customers' needs. Promise to check your stock today. What do you have on hand? What is in short supply? Is interest in others? Enthusiasm? Concern for someone or a cause? Experiences organized so that they can be presented in a clear-cut manner? Ambition? Endurance? Modesty?

Taking inventory is a necessary step in selling you.

These columns are prepared by Joe Girard, named the world's greatest salesman 12 times by the Guinness Book of World Records, and [illegible] through Allied Press International. All questions and comments concerning information included in these columns should be directed to API, [illegible] 2291, Washington, DC 20013.

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MNI

Auction Block


George Basel

Our Industry's Stock Exchange

The auto auction market has jumped off to a good start for the first two months of the year. At the **Eastern Auto Auction Association** winter meeting held in Freeport, Grand Bahamas January 24-27, auction owners were expressing cautious optimism and confidence for the near future.

Generally speaking, volume of late-model cars going to the auction is predicated on trade-ins at franchised dealerships. The fleet and leasing companies are increasingly turning to the auction for disposal of their fleets, thus taking up this lack of used car trade-ins which is helping to maintain the auction market's momentum.

* * *

The auction and automobile industry lost two good friends in January. **Otho Barden Batten,** owner of Kenly Auto Auction, Kenly, N.C., died January 10. He was past president of both the Southern and National Auto Auction Association and was an active member of the Carolinas' Independent Automobile Dealers Association. Throughout his life, "O.B.", as he was known, devoted his business efforts to making the automobile and auction industry a better place to work. We express our sincere condolences to the Batten family.

Carl E. Marker, 67, of Ft. Lauderdale, Fla., died in that city January 6. Marker was one of the founders of the National Auto Auction Association and served as its president from 1953 to 1956. He owned and operated Fort Wayne Auto Auction. He was an auctioneer and, after moving to Florida, he auctioneered at West Plam Beach Auto Auction.

* * *

Rudy Crowder, general manager of Lakeland (Fla.) Auto Auction, celebrated the auction's 15th anniversary January 23. The celebration was kicked off with **Jake Ruhl,** former president of Manheim Service Corp., Cox Broadcasting Co., auctioning off the first Ford car of the Ford Motor Co. sale. Ford Motor entered 376 cars for the gala event. **Jim Terry,** Bill Thee's replacement, and **Claude Scoggins** report all 376 units were sold. This produced $2,046,865 net for Ford. This was the largest net Ford ever produced in the Southeast.

Because of inflation, used cars are much more important to the people in Great Britain. The same probably will be true in the USA as time goes by.

Also in attendance were **Bill Jacobs,** owner of Columbus Fair Auto Auction, and **Tom Beasley,** proprietor of Nashville Auto Auction. Tom was accompanied by **Mike Richardson,** M.I.M.A., director of British Car Auction Group Limited in Frimley Bridges, Farnborough, Hants, England.

Mike said the British Car Auction Group owns 13 auto auctions throughout Great Britain and does $330 million a year. One major difference between U.S. auctions and the ones in England, according to Mike, is that the British auctions are open to the *public* as well as to dealers. That's the law.

"The business of selling motor cars in Britain and America is strikingly similar," Richardson said, "but there are some differences."

British business buys 75 percent of all new cars sold there, he said, because many firms provide their employees with autos as a reward in a wage-regulated state (commonly known as "perks").

"America is just now catching up to our inflation problem," Mike said. "Britain has had a 17 percent to 20 percent inflation rate. This means the new car is out of reach for a great majority of the people. The used car, therefore, becomes much more important. I believe you will start finding the same thing true here as time goes by."

* * *

The all-new **South Seattle Auto Auction** had set January [illegible] for its grand opening celebration, but the opening day activities were cancelled because

*Auction Block is prepared exclusively for **automotive executive** by George Basel of the NADA Official Used Car Guide. All comments or questions pertaining to these columns should be mailed to: George Basel, **automotive executive** magazine, 8400 Westpark, Dr., McLean, VA 22102.*

of, of all things, *heavy snow.* Snow of that quantity occurs about once every 20 years in Seattle. By the way, Wade Ashley is no longer with South Seattle AA.

* * *

California Auto Dealers Exchange (CADE) in Anaheim, a Manheim Service Corp. auction, is continuing to improve its facilities for its dealers. **David Harrison,** general manager, said the steady growth of the auction has necessitated the building of a fifth lane, installation of a new exhaust system, and increased dealer parking area. Improvement is continuing in the other auction lanes, too, as well as in the administration area.

* * *

Final plans have been made for the **Southern Auto Auction Association** meeting in Memphis, Tenn. The meeting will be held April 10-13. The board of directors of the **National Auto Auction Association** will hold its spring meeting at the same time.

* * *

Bill Thee, used vehicle resale activity manager for Ford Motor Co., retired December 31. **Jim Terry** of Lincoln-Mercury Division business management has been selected as Bill's replacement. I know the auction industry wishes Bill all the best.

* * *

Bob Wholehan, manager—merchandising used vehicles, Chevrolet Motor Division, has been transferred to the Chevrolet zone office in Philadelphia. Bob is now the assistant zone manager. **Fred Price,** assistant manager, merchandising—passenger car, Chevrolet Division, has assumed Bob's responsibilities. The auction industry will miss the services and support of Bob. We all wish him good luck in his new assignment.

* * *

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Legal Briefs

The Auto Industry And The Law

Banner year for recalls

Almost 9 million vehicles and more than 250,000 tires were recalled for safety defects during 1979 by the U.S. Department of Transportation.

In 1979, domestic manufacturers recalled 7 million vehicles in 205 recall campaigns. Foreign manufacturers recalled 1.8 million vehicles in 54 campaigns, bringing the yearly recall total to 8.8 million cars, trucks, buses, recreational vehicles, motorcycles and mopeds. The federal safety agency reported that 52 of these recall campaigns involving approximately 3.7 million vehicles were influenced by government actions or investigations.

The four major U.S. automakers recalled 6.2 million of the 1979 total. General Motors recalled 4.8 million vehicles; Ford Motor nearly 1.2 million; Chrysler more than 225,000; and American Motors 29,000.

Most of the foreign vehicle recalls involved Volkswagen of America with almost 542,000 vehicles. Nissan Corporation of America (Datsun) recalled almost 296,000; American Honda over 149,000; and Volvo of America an estimated 240,000 vehicles. While it may seem like a large year for recalls, it should be noted that since September of 1966, when federally-mandated recalls were effective, over 83.7 million vehicles have been recalled in 2,926 campaigns.

* * *

Emissions rules issued for heavy-duty trucks

The EPA has issued a $950 million emissions control package for heavy-duty truck engines. Effective with the 1984 model year, the new requirements are expected to add $400 to the price of heavy-duty gasoline engines, and $195 to the price of heavy-duty diesel engines. In addition to meeting numerical standards, the EPA wants the standards maintained for "the average period of inservice engines" which will more than double the length of time that heavy-duty emission standards must be met.

* * *

Oklahoma courts have no jurisdiction over New York car dealer in product liability

On January 21st, the U.S. Supreme Court in *World-Wide Volkswagen Corp. v. Woodson* held that subjecting a New York automobile dealer to the jurisdiction of Oklahoma courts just because the dealer could foresee that the automobile might be used and/or cause injury in Oklahoma is a violation of the U.S. Constitution's Due Process Clause. The Oklahoma Supreme Court had ruled that the New York dealer was liable since out of state car dealers "derive substantial income from automobiles which from time-to-time are used" in Oklahoma.

The U.S. Supreme Court disagreed saying that the Due Process Clause of the Fourteenth Amendment still requires that a state may not extend its jurisdiction against an individual or corporation with which it has no ties. The Court said that to rule otherwise

[illegible] is prepared by the Legal Group of the National Automobile Dealers Association. For further information or questions concerning the items appearing in this column, write: Legal Briefs, NADA Legal Group, 8400 Westpark Dr., McLean, VA 22102

Legal Briefs—

every car dealer would in effect appoint his automobile to be his agent for service of process.

Rather, the Court felt that the test should be whether or not the automobile was put into the stream of commerce with the expectation that it would be purchased by consumers in that jurisdiction.

* * *

IRS rules on truck body modifications

In an IRS letter ruling (#7950017), the IRS ruled that custom-built truck chassis serving as a mount for telescoping boom-cranes are not highway vehicles, and accordingly are not subject to the Federal Excise Tax. The chassis are designed and specifically constructed to serve only as mobile platforms for the operation of construction-type equipment, and therefore according to the IRS are unrelated to the vehicle's transportation function.

In another ruling, the IRS ruled that the Motor Vehicle Excise Tax on Parts and Accessories applied to the sale of a wrecking hoist. The hoist was a hydraulic arm mounted on the subframe in the bed of a light-duty pickup truck. The hydraulic arm operated a sling which was used to tow automobiles. In the ruling (#7951153), the IRS concluded that the function performed by the wrecking hoist was related to transportation, and subject to the 10 percent Excise Tax on Motor Vehicle Parts and Accessories.

* * *

Fed sues Fiat in rust recall controversy

The U.S. government has filed a $1.6 million lawsuit against Fiat arising out of inadequate recalls of 1970-1971 Fiat automobiles. The action filed in the U.S. District Court in Washington asks that Fiat be ordered to recall Fiat 850s and Fiat 124s for rust corrosion defects which weaken the cars' undercarriage, steering and suspension.

Last March, Fiat recalled the same vehicles for rusting and offered to buy back defective cars. In the lawsuit however, NHTSA alleges Fiat used "coercive tactics" to persuade owners to accept unreasonably low offers. Fiat characterized claims by the federal government as groundless.

* * *

A reader asks

A reader from Florida writes and asks the following question about an item in last month's column: "In Legal Briefs last month you stated that AMC was the only automobile manufacturer falling within the FTC's Franchise Trade Rule because AMC requires dealers to purchase more than $500 worth of signs and service and marketing kits within the first six months of new business operation. I had to purchase from my manufacturer far more than $500 worth of materials. Why are they exempt?"

ANSWER: *The Federal Trade Commission's Franchise Trade Rule, effective October 21, 1979, requires certain franchisors to disclose details about business opportunities to prospective franchisees. In determining which franchisor falls within the scope of the Rule, one of the requirements is that there must be a payment of $500 which inures to the benefit of the franchisor. Therefore, if the franchisor sells a dealer signs, audio-visual equipment and the like at its cost with no mark-up, then according to the FTC Rule no payment inures to the benefit of the franchisor. Therefore, a dealer could purchase thousands of dollars worth of equipment from the manufacturer, but if the manufacturer makes no profit on that equipment, then the manufacturer is exempt from the rule.*

Under these guidelines, the FTC has determined Volkswagen, White Motor, General Motors, PACCAR, Chrysler, International Harvester and Ford to be exempt. This does not mean that the others are not, but only that the FTC has not determined that the other manufacturers or importers are exempt.

The Big Rigs

Pat Close

An Uncertain Year

Decade opening forecasts almost without exception contain elements most of us like to hear and many of us like to believe. Good things, the seers say, promise to triple or at *least* double, and the bad things, if they don't out and out decline, will most certainly level off and cease to be a problem, "with the possibility of a brief aberration that should be of limited consequence."

The 1980 outlook is different.

Industry reps predict a sizeable downturn in truck sales—perhaps as large as 15 percent, and economists figure the entire automotive industry to remain sluggish, at least through the first three quarters of the year.

Double-digit inflation, they say, is a probability for the immediate future. So is the likelihood of a continued decline in the productivity of the American worker. Expectations will go down, prices will go up. We'll have to do *more* with less.

Predictions of boom times for the truck industry such as it experienced in the early 1970s cannot be found. Everyone and everything seems uncertain, and the smothering fear is market performance will more closely resemble the dismal one of the mid-70s.

The crux of the problem of course is energy—how to get it and how to pay for it. Reliable information on current gasoline and diesel supply, not to mention supply for years down the road, is spotty. Truthfully, predictions as to how this situation will affect truck buying in the coming years are only slightly more solid.

Industry sources state that our crude oil supply, as of now, is adequate. It appears ample oil is available for the next six months, and we may even be shortly faced with a glut. Stocks are good.

If any large or even mid-size supplier would shut down or severely restrict its output, however, all bets are off. The odds are however, diesel fuel and gasoline supply in this country would experience some degree of pinch, with the effect being felt some weeks after the cause.

Expectations will go down, prices will go up. We'll have to do more with less.

What prices will be demanded for fuel by the end of the year is, if anything, even more of a mystery. Some are guessing the year-end mark for diesel will be at the $2.00 level. Others don't think that is conceivable, but quite a few people fell short in their forecasts *last* winter. For the record, diesel, about $1.13 a gallon this past December, sold for about 66 cents 11 months earlier.

Probably the only immediate hope of beating this spiral lies in truck technology. Truck manufacturers are turning more and more to lighter components and more efficient component design in an attempt to save fuel. But it is definitely a slow process. Engineering changes require testing, developing, customer education, and acceptance. The year 1980 will see few major "breakthroughs" by the truck industry.

The fuel efficient trucks cost more, and the customer has indicated some resistance to that. He definitely has to be shown the long-term value of some of the newer features that appear to take more money out of his pocket. Truck manufacturers could do more in that respect—and further their own interest—by educating dealers, customers and drivers as to the virtue of the fuel efficient vehicles. Fleets seem to be buying economy and regular maintenance these days, but a fair number of owner-operators do not seem to be as informed about some of the options and need to be shown some resistance, perhaps, on their demands for excessive horsepower and extra chrome.

There's been, of course, a rather swift change in the direction of dieselization, and mid range diesels do translate into a large improvement for truck owners. It's another example of trade-off—engine cost for lower operating cost—and a lot of buyers are quick to see the value in *that*.

The government's response to the energy situation has not been what might have been expected. The Emergency Energy Conservation Act of 1979 en-

This column is prepared exclusively for **automotive executive** *by Patrick R. Close, director of NADA's American Truck Dealers Division. All comments or questions pertaining to these columns should be addressed to: Pat Close, director ATD, 8400 Westpark Dr., McLean, VA 22102.*

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courages the development by the states of standby rationing plans, and some things are fairly implicit: the enforcement of the 55 mph speed limit, flexible working hours, and the odd/even system. Other possibles though, such as a reduction in the work week, bans on driving certain days, restrictions on gallons purchased, and fuel coupons, raise large questions as to how the truck industry could operate under those conditions.

We have made strides with the Department of Transportation (DOT) through the Voluntary Truck and Bus Fuel Economy Program. It's comforting to know the truck industry and government *can* work together without regulation towards solving the energy problem. The information exchange alone has provided valuable insight.

What is troubling for the truck industry, though, is the lack of attention our efforts receive by the rest of the government. The new windfall tax legislation has few, if any, provisions aimed at helping the truck industry meet the challenges of the energy problem.

Our country does not have a solid program for solving our energy woes, and it seems sensible to have industry and government get together and draft recommendations on what should be done.

The energy problem is here to stay. As leaders in the truck industry, we should be taking steps to remove the uncertainty from our future. We must overcome our reluctance to address the energy issue just because it is politically volatile.

What is the answer? Maybe more education will help. A lot of us still are unsure of what we are confronted with. The truck industry faces an uncertain future, but it still has the opportunity to shape its future. It will take a little time and a little effort, but it is worth it! This year, 1980, marks a turning point. We still have the chance to strengthen the truck industry and obtain the solutions needed, but we have to do it now. Æ

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Tilting The Scales In Chrysler's Favor

By Ron Rogers

Just as it appeared the Chrysler loan guarantee effort was all but defeated, an organized push by NADA, Chrysler Corp. and Chrysler dealers turned things around.

In the unlikely event you reall[y] haven't been paying attentio[n], Chrysler's success at getting a $1.5 billion federal loan guarante[e] was not a matter of the govern-ment quietly acquiescing.

It took a lot of convincing. The convincing, in turn, took a lot of work.

According to a lot of observers both in and out of government, the Chrysler effort, at a point very late in the game, was not going well. Some say, it was beginning to lose ground and, according to others, the regression had the potential to be extremely rapid.

What turned it all around? Or-ganization and commitment and, say some of those responsible for that organization, that point would be a good thing for dealers to remember. It could come in handy again in the very new fu-ture.

"At one point," says Dodge Dealer Council Civic Affairs Committee Chairman Lee Auge, a Dodge, Plymouth, and Chrysler dealer in Belen, N.M., "I felt we definitely had to have some ad-ditional push or we were in a lot of trouble. We had a lot of legislators who would not make a commit-ment one way or the other. We were sitting at a very, very close edge, and there were just too many left on the fence who could make a very big difference."

The decision was subsequent[ly]

made to blitz Congress, especially with dealers. In the opinion of many who know, the last three weeks, especially the last two, made what was probably the crucial difference.

But practically every move was crucial, and the backstage maneuvering really began about two months before the final show. At that time, the hearings started at the subcommittee level of both houses and the polling of the Congressional members began. A smattering of dealers and—especially—the law firm of Patton, Boggs and Blow were involved at this stage, meeting with the Congressmen individually, finding out where they stood. Congressmen like James J. Blanchard (D-Mich.) contributed their help too, pushing their significant influence and trying to coordinate things. The measure *could* have died even before it received full committee consideration. But it didn't.

The Chrysler-dealer-UAW alliance really did not lack for help. In addition to the Patton, Boggs and Blow firm which was of particular use in talking to the Democrats, Chrysler employed Bill Timmons, a legislative consultant who had worked with the Ford administration, and also Gary Brown, himself a former Congressman.

The Chrysler aid package did, of course, get through to the full committee level of the process and, for the first time, a large number of dealers began to get involved. Probably their biggest mission: to dispel the notion many Congressmen had that the issue was one of saving big business.

Says Executive Director of NADA's Legislative Group Tom Greene, "It was apparent early on that a lot of Congressmen knew very little about the situation other than what they had seen in the media. And the media's impression of the issue was that of the nation's 10th largest corporation getting or not getting a precedent-setting loan guarantee."

With the cooperation of Chrysler, the dealers armed themselves with a breakdown of all the dealers and all the Chrysler suppliers by Congressional district. That enabled the dealer-lobbyists to show each legislator what a Chrysler failure would mean in terms of economic impact in their own particular Congressional district. That, as it turned out, made a good deal of difference in the decisions some of the Congressmen made.

The dealer organizers, such as Chrysler-Plymouth Dealer Council Civic Affairs Committee Chairman Lou Kasing, NADA First Vice President Wendell Miller and the aforementioned Lee Auge, found that a lot of dealers had fairly close relationships with one Congressman or another. That proved to be the ace in the hole.

With three weeks to go prior to the Christmas recess, a fairly definitive list had been compiled as to which legislators were uncommitted, committed or leaning one way or the other. Those who were considered questionable found themselves the objects of a massive onslaught. Approximately 150 dealers stormed the Capitol in a one-day wave, seeking out their own Congressmen as well as others.

Says NADA's Miller, "The effort in that one day was so successful, many of the dealers decided the effort should be expanded as quickly as possible as much as possible.

"Every zone office called every dealer, and they asked them to make, the following week, any effort they could toward direct contact with their Congressmen. The response was unbelievable."

With now just two weeks left before the Congressional recess, the country's Chrysler Corp. dealers almost overnight forged an impression that no person and no event had been able to form up until then. The several hundred who came to the nation's capital to visit their Congressmen that week, and the several hundred more who called and sent letters and telegrams, captured the atten-

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tion and imagination of the Washington and national press and finally transmitted the urgency and import of the situation. The jeopardy could no longer be editorially or politically ascribed to a faceless big business corporation or to an even more faceless case of corporate mismanagement.

NADA's legislative offices near the Capitol Building were the headquarters for the dealer effort, and plans called for using the offices as a morning briefing area that next-to-last week for the dealers who would respond to the call and try the last-ditch effort. On the morning of an extraordinary Monday, however, 200 dealers showed up, briefing plans had to be altered, and the momentum continued to gather.

Dealers kept coming throughout the week and even into the next. They met their Congressmen one-on-one, they met them in groups, and they met other dealers' Congressmen. When they were through, a bill that was adjudged by many to have not a lot of chance at all went up for vote on the floor with almost no chance to do anything *but* pass.

Few Congressmen got the chance to feel alone. Dealers were asked to report back to NADA's coordinating offices after their consultations and confrontations, and they delivered their findings about who would vote in what way. If a legislator had conferred with more than one dealer, the dealers' conclusions were of course compared with one another. The conclusions were compiled in NADA's tally room, and Auge and Kasing in particular analyzed those results and proceeded with the task of "matching up."

The two dealers made sure any legislator *still* laden with doubt at that late date received almost immediately some kind of contact from a dealer or dealers from his legislative district. Often, the contact was a dealer friendly with or at least familiar to the Congressman, and in a few cases where such a relationship was especially strong, lawmakers were contacted one more time even if they were considered to be rather adamant "NOs."

"We tried to be pretty conservative," says Auge, "in looking at our vote picture. On the whole, w[e] concentrated our efforts on th[e] people with whom we really ha[d a] chance, and we concentrat[ed] hard."

They also took no chances. "W[e] made sure—sure as anybody p[os]sibly can—that we had the vote[s we] thought we had. If there was even [a] hint that something was slipp[ing] away, we followed up on it."

The Dodge dealer from Bel[en], N.M., is of course rather ecst[atic] over the results of his efforts. H[e] he says he is almost awed over w[hat] took place in some states. "T[he] number of minds that we[re] changed in some states," he sa[ys], "shows that some people didn't [...] up. Some Congressmen were [ap]proached not just in Washingt[on] but even found themselves invi[ted] to dinner when they travelled b[ack] home. I'm convinced the eff[ort] was awesome."

In the end, almost 1,000 deal[ers] came to D.C. in the slightly m[ore] than two-week period, and cou[nt]less more helped in other wa[ys]. What has impressed Kasing [...] much, though, is that many of [the] dealers had no previous Chry[sler] connection.

"I'm not an NADA memb[er]," he says, "but I've got my appl[ica]tion. The way all kind of de[al]ers—Ford, GM, AMC a[nd] others—pulled together over [this] issue showed me the power [of a] broad dealer organization [...] proved to me what can be don[e in] the future. We don't want to [...] the contact we have with dea[lers] or the contact dealers have w[ith] their legislative representativ[es]."

Auge put it this way: "What [we] accomplished was the result [of] hard work and, I think, a goo[d ar]gument. We were asking for a [...] *guarantee*, not a loan, and we w[ere] asking a hard question: Wh[ere] could you spend as little as $[...] billion and save this many [...] We tried every way we coul[d to] convince the Congressmen [...] think, that our cause was right."

The lobbying task must h[ave] been perplexing to some o[f the] dealers, because many of [the] Senators and Congressmen w[ere] directly opposite of what s[...] might have discerned as their [...] record. Many of those who [...] traditionally voted "in favor [...]

(See CHRYSLER Page 26)

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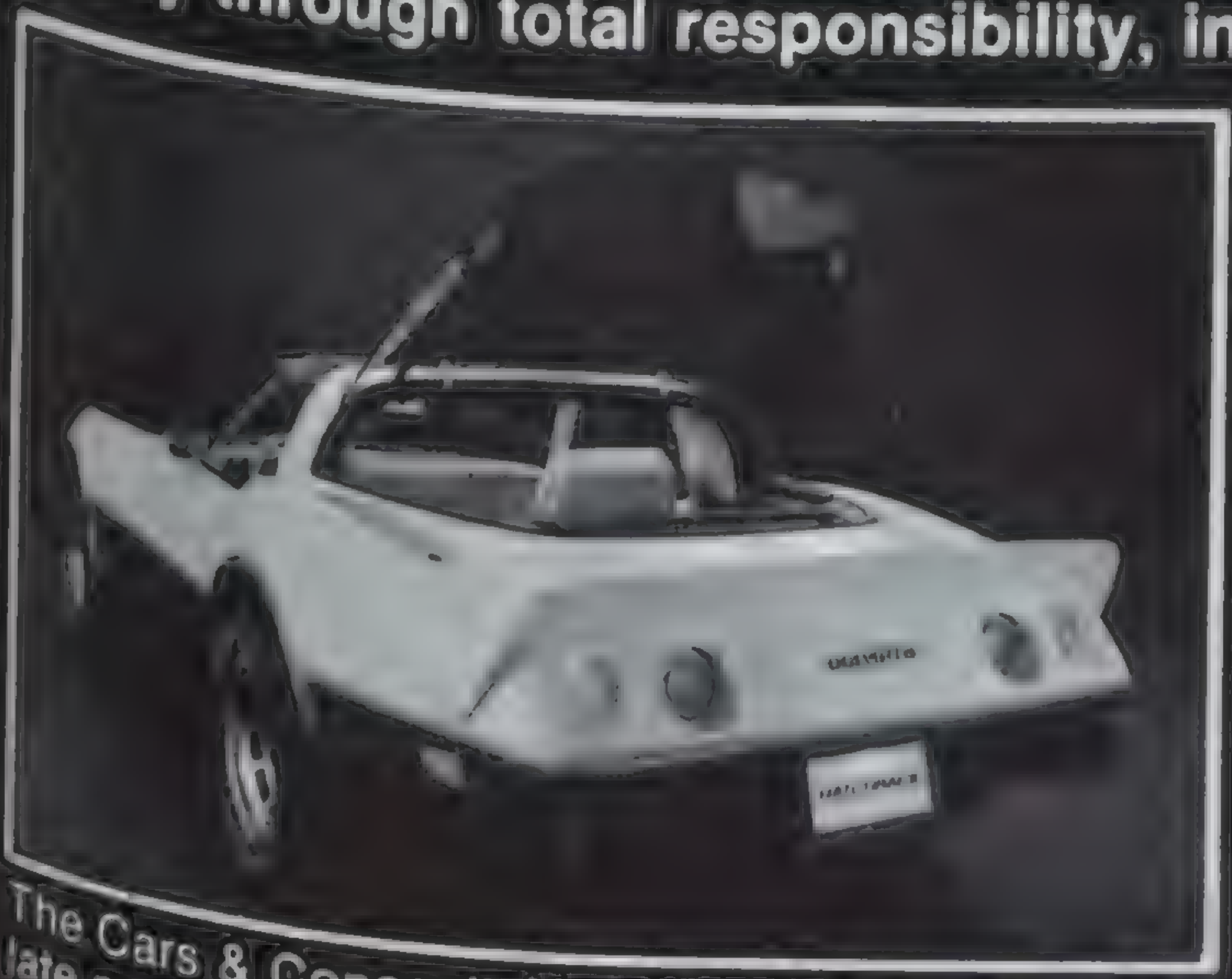

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(CHRYSLER From Page 24)

the auto industry's position didn't, and the reverse was true.

The explanation may be that in the minds of many of the legislators, there was a larger, overriding issue: government interference in private business. Many of the same individuals who voted against the formation of the Consumer Protection Agency and against other legislation incorporating similar philospohy, also voted against Chrysler. They would not be swayed, and it made little difference to many of them that the government may have already intefered with Chrysler by virtue of the fuel economy and safety regulations. Some of the legislators, in fact, could not appreciate the economic impact the regulations have had on Detroit, and some close their arguments with the opinion that the fuel standards have actually saved Detroit from a worse dilemma than it's now in.

There has been, however, a ripple of movement in Congress recently toward doing something about controlling some of the regulations that have been pouring out of the bureaucracy. Some of the talk has mentioned rollbacks.

At least some dealers, including Miller, believe dealers ought to mass against the "excessive" regulation as forcefully and totally as they did in the face of the latest crisis. "If we don't move against these air bag and emissions and fuel economy regulations and schedules quickly," Miller says, "nothing else is going to make a lot of difference. A 1976 Congressional report—AE mentioned it—indicated that (regulatory demands) could conceivably break the manufacturers. That's a *Congressional* report, mind you, and I'd say its prognosis has come to pass. I'd say the agencies are doing things completely irresponsibly without regard to what's going on in the world, and I would hope we can do something about it."

A lot of dealers are just not aware of how much influence they have with a Congressman.

Lee Auge seems to largely agree with those sentiments, and he says dealers *could* change the regulations if they'd get together. "A lot of dealers," he says, "are just not aware of how much influence they have with a Congressman. They showed their power in one way in the latest effort by the manner in which they were able to band together friends and bankers and people with political influence in order to change the flow.

"Dealers have said to me, 'How do I know my Congressman will see me?' The answer is, if you're a constituent and you've got something to say, they'll see you."

As Tom Greene put it recently: "When a dealer or a group of dealers go into a legislator's office and talk about their number of employees, their total payroll and the amount of taxes they pay in the Congressman's area, they get closer to home than they could if they took the next charter."

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Hire More Workers... Pay Less Taxes

The Targeted Jobs Tax Credit program is being praised by businesses for its lack of red tape, willingness of new employees and the hefty tax brakes it offers.

A relatively new federal program is proving to be one way small businesses can increase their work force and gain a hefty tax break in the bargain. It's the U.S. Labor Department's *Targeted Jobs Tax Credit* program—or TJTC, for short.

The program, initiated last May, is aimed at placing workers from seven "targeted" groups into jobs provided by private employers. For hiring and training these men and women, employers can qualify for federal tax credits of up to $3,000 for each worker during his or her first year on the job and up to $1,500 for the second year.

One feature of TJTC that is being praised by companies already participating in the program is the lack of red tape and paperwork usually associated with government programs of this type.

". . . there is little or no red tape for the employer," explains Secretary of Labor Ray Marshall. "Local agencies handle most of the administrative details. They screen potential employees to determine their eligibility and give them vouchers for presentation to employers. When a company hires an eligible worker, the voucher is sent to the State Employment Security Agency to be certified. Within three working days the agency will send the company all the documentation needed for tax records."

To be eligible for TJTC tax savings, employers must hire workers from one of the following seven target groups:

- Handicapped persons referred from vocational rehabilitatio programs or the Veterans Admin istration;
- Young people 18 through 2 who are members of economicall disadvantaged families;
- Recipients of Supplement Security Income (SSI);
- Vietnam-era veterans unde 35 who are economically disa vantaged;
- Persons who have receive general assistance for 30 or mo days;
- Youths 16 through 18 pa ticipating in cooperative educa tion programs; or
- Ex-offenders (felons) who a economically disadvantaged a are hired within five years aft conviction or prison release.

The employer, of course, has t final say on who—if anyone— hired, what job the applicant w fill, and what the salary will be

Tax credits can be as much as percent of each TJTC worke first $6,000 in wages paid duri the first year of employment maximum of $3,000 per employe and 25 percent of the first $6,0 in wages paid during the seco year of employment (a maximu of $1,500 per employee).

"The actual amount of t credit will vary," says Labor Sec tary Marshall, "depending o company's tax bracket, oth business deductions, and the s ary of the new employee."

Here's a step-by-step breakdo of exactly how the Targeted J Tax Credit program works:

- Government agencies a other organizations that se


TAX
RETURN

targeted workers—such as CETA (Comprehensive Employment and Training Act) program sponsors, vocational rehabilitation agencies, welfare agencies, and Social Security offices—issue eligibility vouchers to their clients.

• When workers apply for jobs, they show the employer their vouchers.

• After an eligible worker is hired, the employer answers a few simple questions on the voucher and mails it to the local Job Service office. The information required on the voucher is simply the name and address of the firm; the company's IRS identification number; job title of the person filling out the voucher; and the starting date and starting wage of the employee.

• The Job Service sends a certification form on each worker. This form provides all the evidence required to claim the tax credit.

• Claim the tax credit by filing IRS Form 5884 with the firm's federal income tax return.

In some cases the tax credit can be applied to people already on a company's payroll. Generally, the employee must have been hired *after* September 26, 1978. And the credit applies only to wage costs incurred between January 1, 1979 and December 31, 1980.

An employer cannot claim credit on employees' wages while receiving federal government payments for on-the-job training for the same employees. Credit can be claimed on certified employees as soon as they complete training, but the training period counts as part of their first year of employment.

The first-year wages on which an employer can claim credit cannot exceed 30 percent of the total wages subject to federal u employment insurance taxes p to employees during the calen year.

The credit is limited to 90 p cent of a firm's tax liability af other applicable reductions. If company cannot claim a full cre because of this limitation, it c carry unused credit back thr years or forward seven years firm's business expense deduc for wages is reduced by t amount of the tax credit.

A company cannot claim b the TJTC and the WIN/welfare credit on the same employee.

Companies interested in hi TJTC program workers can be in contact with prospecti employees by contacting a lo Job Service office or any agency organization serving targe workers, such as CETA program vocational rehabilitation age cies, welfare agencies, or So Security offices. Employers specify they want workers eligi for the Targeted Jobs Tax Cre when placing job orders with Job Service.

For more complete informa about the TJTC program, emp ers should contact a local Job S vice or IRS office. Phone numb for Job Service state coordina of Targeted Jobs Tax Credit listed below.

Statewide TJTC Information Numbers

Alabama	205-832-5313	Montana	406-449
Alaska	907-465-2779	Nebraska	800-742
Arizona	602-253-1133	Nevada	800-992-0900x
Arkansas	501-371-1893	New Hampshire	603-224
California	800-952-5606	New Jersey	609-292
Colorado	303-839-5833/x270	New Mexico	505-842
Connecticut	203-566-8060	New York	518-457
Delaware	302-368-6876	North Carolina	919-733
District of Columbia	202-724-3960	North Dakota	1-800-472
Florida	904-487-1260	Ohio	614-466
Georgia	404-656-5777	Oklahoma	405-521
Hawaii	808-548-6376	Oregon	503-378
Idaho	208-384-2645	Pennsylvania	717-787
Illinois	312-793-4218	Rhode Island	401-277
Indiana	317-633-5729	South Carolina	803-758
Iowa	515-281-3685	South Dakota	1-800-592
Kansas	913-296-2100	Tennessee	615-741
Kentucky	502-564-5331	Texas	512-397
Louisiana	504-342-2932	Utah	801-533
Maine	207-289-3901	Vermont	802-229
Maryland	301-383-7500	Virginia	804-786
Massachusetts	1-800-392-6209	Washington	206-754
Michigan	313-876-5204	West Virginia	304-348
Minnesota	612-296-6415	Wisconsin	608-266
Mississippi	601-961-7529	Wyoming	1-800-442
Missouri	314-751-3215		

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B

The Obey-Railsb

How It Squeezes Political Action Groups

Under the guise of election reform, this bill would sharply reduce the contributions a political action committee could donate to a House candidate.

By Charles Ing
NADA Legislative Group

On October 17, 1979, th
United States House of Rep
resentatives took ye
another step in further restricti
the ability of American citizens t
participate in the electoral pr
cess.

Acting without any committe
hearings and under the guise o
election "reform," the Hou
passed by a 217 to 198 vote th
Obey-Railsback amendment. Th
amendment, which proponen
attached to a then rather inno

ck Amendment —

ous Federal Election Commission Authorization bill, sharply reduces the amount a political action committee (PAC) can contribute to a House candidate.

Current law allows a candidate to receive up to $10,000 per election cycle—$5,000 in the primary and $5,000 in the general election. The Obey-Railsback amendment would reduce to $6,000 the total amount receivable. Of even greater significance, the Obey-Railsback amendment places a limit of $70,000 on the total amount of money a candidate can receive from all PACs.

Proponents of this change in the election law work under the basic assumption that campaign funds contributed to political candidates by PACs distort the integrity of the political system, i.e., elected officials become responsible to special interests. The glaring fallacy in this assumption was readily observed by Congressman Mendel Davis (D-S. C.) on the House floor when he stated that, "if receiving money from interest groups is bad, does receiving less money make it less bad?"

Presumably, the integrity of the political system is distorted in direct proportion to the amount of money contributed by PACs as the movement to restrict PAC contributions has accelerated in recent years as the number of PACs and the amount they have contributed has increased. Common Cause, a strong proponent of PAC limitations, clearly amplified this precept during testimony before the House Administration Committee when it stated:

"Perhaps nothing does as much to undermine the public's image of Congress and its ability to perform on behalf of all our citizens than the ever-increasing role of special interest group money in Congressional campaigns."

In direct conflict with this position is a study performed by the Institute of Politics of the John F. Kennedy School of Government at Harvard which concludes that adequate campaign funds are necessary for competitive elections. And in fact more, not less, money is needed for most campaigns. The infusion of adequate campaign funds into an election stimulates greater voter awareness and participation. To try and limit this stimulating force with the passage of the Obey-Railsback amendment is an unhealthy exercise.

What is interesting about the position that candidates, once elected, are being manipulated by special interests is that "none of the bill's supporters," notes Con-

> ***"Now, if you can buy a member of Congress for $5,000, can you buy 60 percent of one for $3,000? That is nonsense."***

gressman Bill Frenzel (R-Minn.), "has been able to identify any House member who has been unduly influenced by any interest." And it is highly unlikely that they will be able to construct such a corollary.

With elections now costing in the hundreds of thousands of dollars, a small fraction of that total in the form of a $2,500 to $5,000 contribution will hardly serve to unduly influence a legislator. Offers Congressman Robert Badham (R-Calif.), "Now if you can buy a member of Congress for $5,000, can you buy 60 percent of one for $3,000? That is nonsense."

States South Carolina Republican Carroll Campbell, "I do not think a PAC is going to buy itself a Congressman in these days . . . where we are looking at the cost of over $200,000 per election as the average."

While the nature of politics lends itself toward flexibility on the part of a politician, careful examination of a legislator's voting record over a period of years will uncover his or her basic philosophy.

Usually Congress amends an area of the law in need of repair. Unfortunately, the action taken by the House on the Obey-Railsback amendment fails to conform to this basic rule of thumb. In this instance, the House passed a bill addressing the unsubstantiated premise that the increased number of PACs and the amount of money they contribute to political candidates is somehow tainted and therefore unhealthy for our electoral system.

Assuming for a moment that the Obey-Railsback amendment passes the Senate, what does this proposed alternative hold in store for the electoral process? The most damaging aspect of the amendment is the adverse effect it will have on citizen participation. Restrictions on PACs in the nature of those incorporated in Obey-Railsback will retard participation in the election process. Proponents either fail to realize or refuse to acknowledge the fact that PAC contributions are comprised of money given voluntarily by individuals to a particular group.

In an age where political parties are losing their appeal for many Americans, and indeed the entire political process is coming under attack, PACs are one of the few institutions which serve to encourage participation in the electoral process.

NADA's PAC, the Dealers Election Action Committee (DEAC) is a perfect example of this phenomenon. DEAC has served to encourage thousands of franchised dealers to become directly involved in the political process, not only financially, but in a participatory role as well. It is a curious logic which seeks to further retard citizen involvement in an electoral process already heavily criticized for low voter participation.

While the Obey-Railsback amendment portends a cloudy future for furthering the goal of citizen participation in the electoral process, it also serves to construct additional barriers for those individuals seeking to challenge an incumbent for a political office. In other words, this is an incumbent protection bill.

Incumbents currently hold a tremendous advantage over any potential challenger. By the very nature of their office, incumbents enjoy high name recognition and ready access to the press. Mailing privileges (which are paid for at taxpayers' expense), district offices (also paid for by the taxpayer), free travel and a host of other political advantages are available to incumbents. Given these inherent advantages, challengers, in most cases, have to spend more money than an incumbent if they hope to mount a successful campaign. By restricting a potential source of revenue available to challengers, the powers of incumbency take on an even greater significance. If this were not the case, why did House Republicans vote overwhelmingly against Obey-Railsback? Surely Republicans, being the minority party, would have rushed to support any amendment that would foster a more competitive political atmosphere.

PAC contributions not only serve to offset the perquisites available incumbents, but they allow competition among candidates with varying degrees of personal wealth. If PAC contributions are limited, an aspiring candidate with a modest income would be hard-pressed to comp

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effectively against a rich candidate who, as guaranteed under the constitution, can contribute as much as he wants to his political campaign. Observed Congressman Frenzel, "PAC contributions are often the only balance to rich candidates."

This is not to infer any negative connotation on wealthy candidates. To the contrary, many of our most able legislators are quite well off financially. Rather, it is to ensure that the vast reservoir of qualified men and women who cannot meet these financial demands will not be dissuaded from participating in our electoral process.

Aside from the participatory impediments which Obey-Railsback would inflict on the electoral system, the enactment of this amendment would also serve to nurture the public financing movement presently underway in the Congress.

Most proponents of Obey-Railsback appreciate the fact that this amendment is but the first step toward adopting a public financing program for congressional campaigns. As stated by Common Cause Vice President Fred Wertheimer, "the key step now is weaning candidates away from the current system of financing campaigns." Once this is accomplished and yet another barricade to voluntary contributions is erected, the ability to effective compete in a political campai will come to depend more an more on a candidate's individu wealth or some form of publi financing.

The arguments against publ financing of congressional cam paigns are voluminous. But just t give some idea of the adverse ef fects of such a program, let's re view for a moment a few of th problems inherent in this concep

Since 1973 America's taxpaye have had the opportunity to desi nate one dollar of their taxes fo use in financing presidential cam paigns. Interestingly enough, th percentage of taxpayers using th check-off system over the past fiv

. . . this amendment is but the first step toward adopting a public financing program for Congressional campaigns.

years has never exceeded 30 pe cent. Thus, despite claims by su porters of public financing that t public favors this approach, a re view of their actual performa in this area seems to indica otherwise.

States Illinois Republican R ert Michel, "After five years of tensive propagandizing for pu financing, five years in wh every conceivable argument been used to convince . . . payers into designating one d of their tax money to fund presi tial campaigns, more than 70 p cent have in effect said, ' When given a free choice, overwhelming majority of Am ca's taxpayers have failed to

dorse public financing. An already tax-burdened America apparently has rejected the concept of subsidizing "balloons, buttons, and bumper-stickers" for congressional candidates.

Future passage of public financing legislation would also signify the creation of yet another large, expensive and undoubtedly ineffective bureaucracy. By March of 1979 the Federal Election Commission still had not completed its audit of President Carter's 1976 campaign. While there were circumstances pending which inhibited the FEC's ability to perform an expeditious audit; nevertheless, it is clear that a great deal of time is required to examine national elections. This being the case, how could one expect a competent evaluation of every congressional race, unless of course the FEC grossly expanded its personnel? And even with that, one has to wonder whether anything but a cursory review of campaign contributions could be accomplished.

A *Washington Post* editorial specifically addressed this point during House Administration Committee hearings on public financing bill H.R. 1 when it said that "the drafters of H.R. 1 propose to dish out public aid to politicians willy-nilly, with few of the administrative safeguards Congress demands in connection with . . . other federal payments."

But despite the unmanageability and high costs associated with public financing, the most adverse effect of such a program relates to the unfair political advantage afforded incumbents under this concept. If limitations of PAC contributions would serve to place challengers in a disadvantageous position, the prospect of applying public financing to congressional campaigns merely exacerbates this problem. Since receiving federal monies would be contingent upon adhering to a spending limitation, the ability to raise the funds necessary to offset the advantages of incumbency would be greatly restricted.

Extended examination of the perils associated with public financing and PAC reductions is a limitless task. However, the more one examines this issue the more one understands the threat to our electoral process. As noted by former White House Chief of Staff and now Congressman from Wyoming, Richard Cheney, "Underfinanced campaigns and unnecessarily restrictive and burdensome regulations lead to less voter awareness, less electoral competition, and lower rates of political participation."

As these inhibiting factors continue, elections will come to be determined more and more by only a handful of the total number of eligible voters. The possibility of creating an *electoral elite* is real.

Congress should fight this attempt to inhibit political advocacy. PAC contributions are not immoral; they are not illegal; they are but one exercise in free speech. Rather than placing restrictions on PACs, Congress should encourage the formation of even *more* PACs.

As of this writing, the FEC Authorization bill, S. 832, is awaiting action by the Senate. Hopefully, the commitment toward free speech and an expanding voter populace will ultimately prevail.

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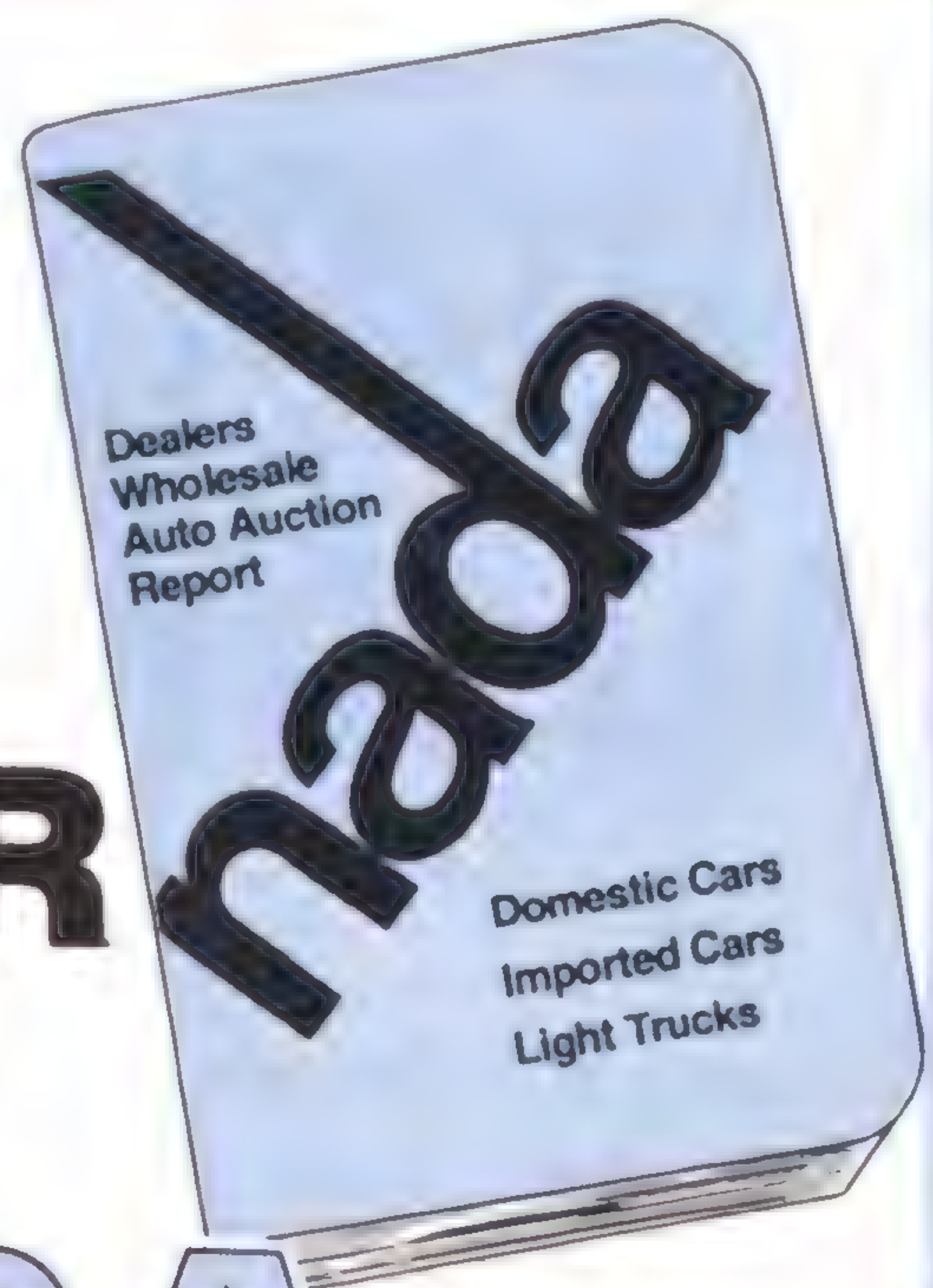
PROFIT BUILDER



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'YOUR RIGHT TO KNOW'

Speaking Out For Small Business

The wife of a Florida import car dealer is using radio commentaries to tell the public what the small businessman is up against.

By Dave Conrad

Behind every great man, there is a woman, so the saying goes, but in Florida, a Clearwater dealer's wife seems to be right alongside her husband when it comes to how she views many of the subjects that affect not only today's dealer, but all small businessmen as well.

Jim McFrederick runs Globe Auto Imports in Clearwater. Globe sponsors a series of 90-second commentaries, offered by Jim's wife, Pat, on radio station WAZE in Clearwater. The series is entitled, "Your Right To Know."

"I started the commentaries about two years ago," says Pat. "Through discussions with our friends and associates, we discovered that unless you were self-employed, you really have little idea as to the regulations the small businessman has to put up with on a daily basis from the government. We just felt that, perhaps, by doing this (the radio program), we could better inform the public of what the small businessman is up against."

"We have found," adds Jim, "that where we live, most of the people are employed by a large corporation such as Honeywell or Sperry-Rand and had just a totally opposite view of what we had as to what was required of an employer, how business people treat consumers, and how the car business is run. After a discussion with them, we'd come home frustrated. They just have no conception of what it's like to be in business."

The McFredericks have also found that the listening audience has definitely been enlightened by the program. Pat feels this is largely because reading for most people is limited to the newsp or *TIME* magazine, whereas does quite a bit of in-depth rea for the program. And occasi guests make the program e more informative.

There have been many favo comments and even requests copies of scripts. WAZE has g them a 50 percent discount what is normally charged to ai program. And the station the the broadcasts were so cogent they're now being aired twi day instead of only once—onc the morning and once in the ning.

Mrs. McFrederick, whose b ground in radio is limited to ing "studied it a little in coll calls her commentaries, basic conservative.

"I sometimes hit on loca sues," she says, "but overall

say it's more of a comment on national affairs."

Subjects covered range from the Equal Rights Amendment and selective service to voting rights for the District of Columbia and gambling in Miami. Pat steers clear of foreign affairs though, due to her limited knowledge in that area. But it's not all hard and sober.

Last Christmas, she discussed why Santa Claus might be late. It seems that a group of bureaucrats visited the North Pole to inform the jolly old elf of some DOT regulations—regulations that might have turned the night before Christmas into the week after Christmas.

"As a result of the radio spots," she interjects, "I've been asked to do a guest editorial once a month for the local newspaper."

Do listeners know she is connected with her sponsor through marriage?

"I'm not sure they would know at all," says Jim, "since the name of the business is Globe (and not McFrederick)."

The man from Globe goes on to say that he thinks the broadcasts have "brought a lot of prestige to the dealership. We listen to the commentaries there every day.

"It certainly has opened up a lot of doors, such as with the local banks and professional associations we deal with.

"It's opened up a lot of identification for my wife," he continues. "She has become a very recognized figure in the community. She's been asked to be on the board for probably the biggest charitable organization in Pinellas County, as far as retarded children go. She's also been asked to be on the board for the YMCA."

Jim has never wanted Pat to take a job in the dealership, but he does like for her to stay involved with it.

"I don't believe in nepotism," he says, "but this is one way that she can know what I'm doing 12 hours a day and have some idea of what a difficult business this is. It gets her familiar with the rules and regulations of the government.

"She was never on my side until recently. Now she's more sympathetic. I think she's now got a lot of compassion for how I feel on things like the cost of advertising, minimum wage, inflation, and OSHA regulations.

"It's gotten her involved," he asserts. "She writes letters to Congressmen for me and handles most of my correspondence.

"Pat has represented all the import dealers in upper Pinellas County in Washington. The Clearwater Auto Dealers, knowing what she does, have voted for her to represent them in Washington.

"The program has led to these kinds of things."

It's almost a one-woman show. Pat does all her own research, writing and producing, and eventually, hopes to syndicate the show.

The show has matured a lot in two years, says Jim, but it "would have to mature more (to be syndicated). It will be a big commitment."

"Nothing's really come of it," says Pat. "We really haven't worked on it that hard, but the desire is still there."

In the meantime, however, if anyone were interested in doing something like this on their own, the McFredericks would be glad to help.

Naturally, one of Pat's favorite topics is the auto industry. She offers her views on that subject:

"I think it's a shame that Chrysler is in the position it is. I feel that's due to government regulations. I'm not sure the taxpayers should be bailing them out, however, I don't feel they would be in that position if it were not for trying to meet the Department of Transportation and EPA standards."

Hitting closer to home, so to speak, she feels "the import market is very big right now, but I'm a little bit afraid, perhaps, of some type of more stringent regulations on importing cars since they do have a big share of the market right now. I would hate to see that happen.

"Other than that, as a whole, I think it's probably one of the hardest businesses to be in, in the United States.

"But I think it's a fantastic industry," she concludes, "and I think it's probably the mainstream of America, providing many, many, many jobs. As far as we're concerned, on a personal basis, I think it's been a fantastic industry to be related to." Æ

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A major public relations and advertising effort by NADA is telling American motorists why they will be dollars—and gallons—ahead with a 1980 automobile.

The majority of America owners would be better with a 1980 vehicle— the National Automobile De Association is telling them so.

By means of a nationwide ca paign unveiled in Detroit Jan 10, NADA is taking the mess to the public that motorists save themselves money a gasoline by trading older cars new, more fuel-efficient mod At the same time, it's be pointed out, this will help the tion combat its growing en problems.

The theme for the multi-m "Buy Now" program is, "Bu 1980 car: It's a good time to de your energy independence."

Four days after the campa was introduced, a group of NA officials visited the White H to discuss a number of issues w President Jimmy Carter. Du that meeting President Carter briefed on the new program.

Speaking of the White H meeting, William C. Doe NADA president at that ti said, "The 21,000 franchised car and truck dealers I repre now are in a precarious po because of slow sales cause high interest rates and unce

The

Now'

The People

...ies about energy supplies. We are paying nearly 16 percent interest on our inventories and the President understands the problems this causes.

"I was pleased to tell the President that our association is launching an active campaign to stimulate new car sales. We are noting that gasoline mileage on 1980 models is 51 percent better than the miles-per-gallon of median-age, or 1974, cars on the road. We will be pointing out to American consumers that if we replace one-fourth of 1974 or older cars with new models—our nation can save an amount of gasoline equal to the peak of our oil imports from Iran."

On a more personal level, the "Buy Now" effort centers on how individual motorists can save $292 or more a year in gasoline costs by trading a 1974 automobile for an equivalent 1980 model. That figure is based on $1-a-gallon gasoline and 12,000 miles annual driving. To back up this thrust, NADA cites government figures that show the average 1974 car getting 13.9 mpg and the average 1980 model getting 21—an overall increase of 51 percent.

The campaign was spawned late last year when NADA started investigating and preparing an advertising and promotional package to stimulate new car sales. Because the advertising media have such a large stake in automotive sales, the effort was designed along public service lines.

"We have surveyed 50 radio stations and informally talked with publishers," Doenges said, "and we believe they will cooperate most strongly with this effort. NADA has spent about $52,000 designing this program and we fully expect to gain more than $1

President Jimmy Carter is briefed on the "Buy Now" campaign and other important auto industry issues during a White House visit by NADA President William C. Doenges.

Billboard materials with this messag are available for purchase by dealers across the country.

million in advertising value."

The former NADA president said while NADA isn't deceiving itself about solving the greater problems that have inhibited sales, he does believe the program will have a positive impact on car and truck sales.

"Our market tests found that only a small number of prospective new car and truck buyers were aware of the sharp increase in mileage," said Doenges. "These people were surprised and expressed disbelief when told that 1980 models get 51 percent more miles-per-gallon than half the cars on the road."

The actual nuts and bolts of the campaign work this way:

• Four taped public service-type announcements have been mailed to the nation's 6,400 radio stations asking for their use. It is expected that 40 percent (2,500) of the stations will use these spot announcements. NADA's 21,000 members are being urged to call station managers in their area and encourage usage.

• A "Buy Now" kit has been mailed to each NADA member. The kit contains a newspaper "clip sheet" that carries both news features and display ads. Dealers are being asked to personally take the clip sheet to their local newsp pers and encourage usage.

• A uniform billboard displ has been designed for outdoor a vertising. These displays are ava able for purchase.

• Dealers also may purchas videotape containing a 4 minute news feature and two 3 second TV spots. These tapes m be presented to local televisi stations with a request that th be used in public service broadc slots.

The radio-newspaper produ tion and the theme of the ca paign were developed by Int media Communications of Wa ington, D.C. Competitive Edg Albuquerque, N.M., prepared t television segment and Uni Associates, Inc. of Winston-S lem, N.C., designed the billboa

"In summary," Doenges sa "NADA is supplying the radio newspaper parts of this campa Local dealers, with a small vestment, can expand this to clude television and outdoor vertising. NADA has develope local media program—with a form theme—that can help reli a growing national problem. T will benefit dealers, manufac ers, media and, most importa the public."

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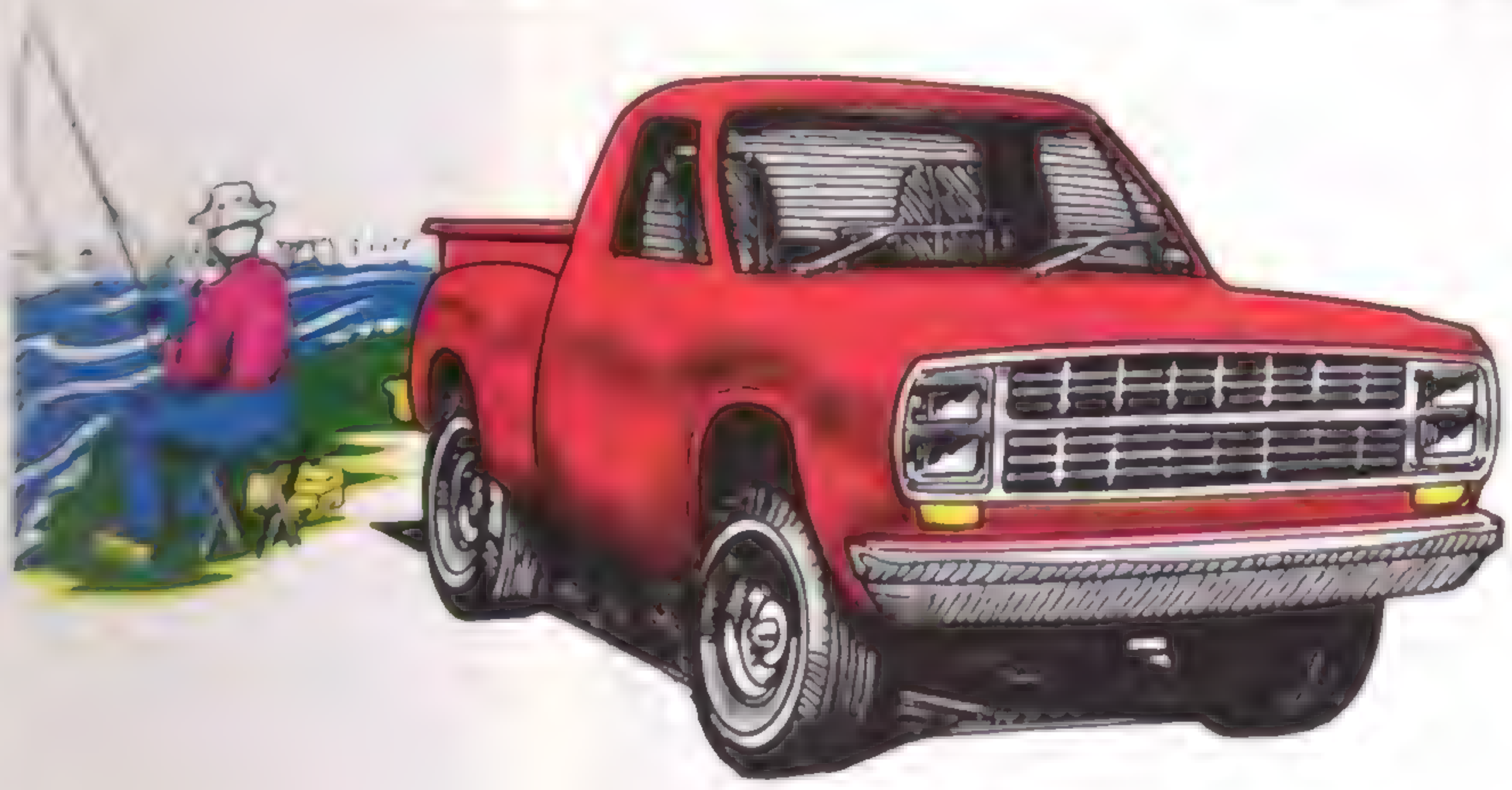

Announcing the only multi-use vehicle show of its kind in the country where Economy, Sales and Profits head the industry's priority list for the 80's.

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RVIA

Limiting The Growth Of Government

Americans are becoming more and more concerned over the expanding size of government and the way this growth is affecting their life.

On March 7, 1978, in an action that attracted little media attention, Tennessee voters approved a constitutional amendment limiting the "rate of growth" in state spending to the "estimated rate of growth of the state's economy." On June 6, 1978, California citizens surprised the experts with their overwhelming passage of Proposition 13—a tax limitation amendment to the California constitution. In the November 1978 state elections, two out of four Proposition 13-type proposals and four out of five spending limitations were approved.

Clearly the public is demonstrating increasing concern over government growth. In 1979 expenditures by local, state and national governments amounted to roughly 40 percent of the dollar value of the nation's total personal income. Put another way, public officials decided how to spend 40 cents of each dollar of income earned by private citizens. This compares with 34 percent in 1960, 23 percent in 1940 and 12 percent in 1929.

This article will survey measures of government growth and consider potential effects of the expanding size of government on American society. It will analyze the failure of past efforts to reduce the role of government and focus on current proposals to regulate government growth through spending restrictions.

The fiscal constitution. The American Constitution does not impose spending limitations on the federal government. While the record shows that government has always grown somewhat faster than the economy, throughout most of the nation's history large deficits have been unusual. Those that occurred were generally related to wars, recessions and major public works projects such as the Panama Canal.

"Conventional wisdom" has dictated that budgets should be balanced and the role of government limited. Both the public and government officials have traditionally supported pay-as-you-go policies, with deficits offset by surpluses. President Woodrow Wilson observed that the history of liberalism is the history of restraints on government power. Such attitudes resulted in an unwritten "fiscal constitution" that guided economic policies and restricted government growth.

During the 1920s, the public debt was actually reduced by $8.1 billion, from $24.3 billion to $16.2 billion. Between 1946 and 1960, there were seven years of deficits totaling $31 billion and seven years of surpluses totaling $30 billion.

In the early 1960s, according to economic observers, there was an abrupt change of policy. The Council of Economic Advisers (CEA) abandoned the unwritten fiscal constitution and adopted a new approach to managing the nation's economy.

While acknowledging that the federal budget should ultimately be balanced, the time frame for doing so was extended to encompass large business cycles. In effect, the council maintained there should be surpluses in "good" times and deficits in "lean" years. Still later, the CEA suggested the budget should only be balanced during "full employment."

Despite the CEA's new approach, unemployment remained at about the same level—averaging 4.6 percent from 1946 to 1960 and 4.9 percent from 1961 to 1974. Federal spending and deficits, however, expanded dramatically.

• Between 1960 and 1979 federal expenditures, detailed on the

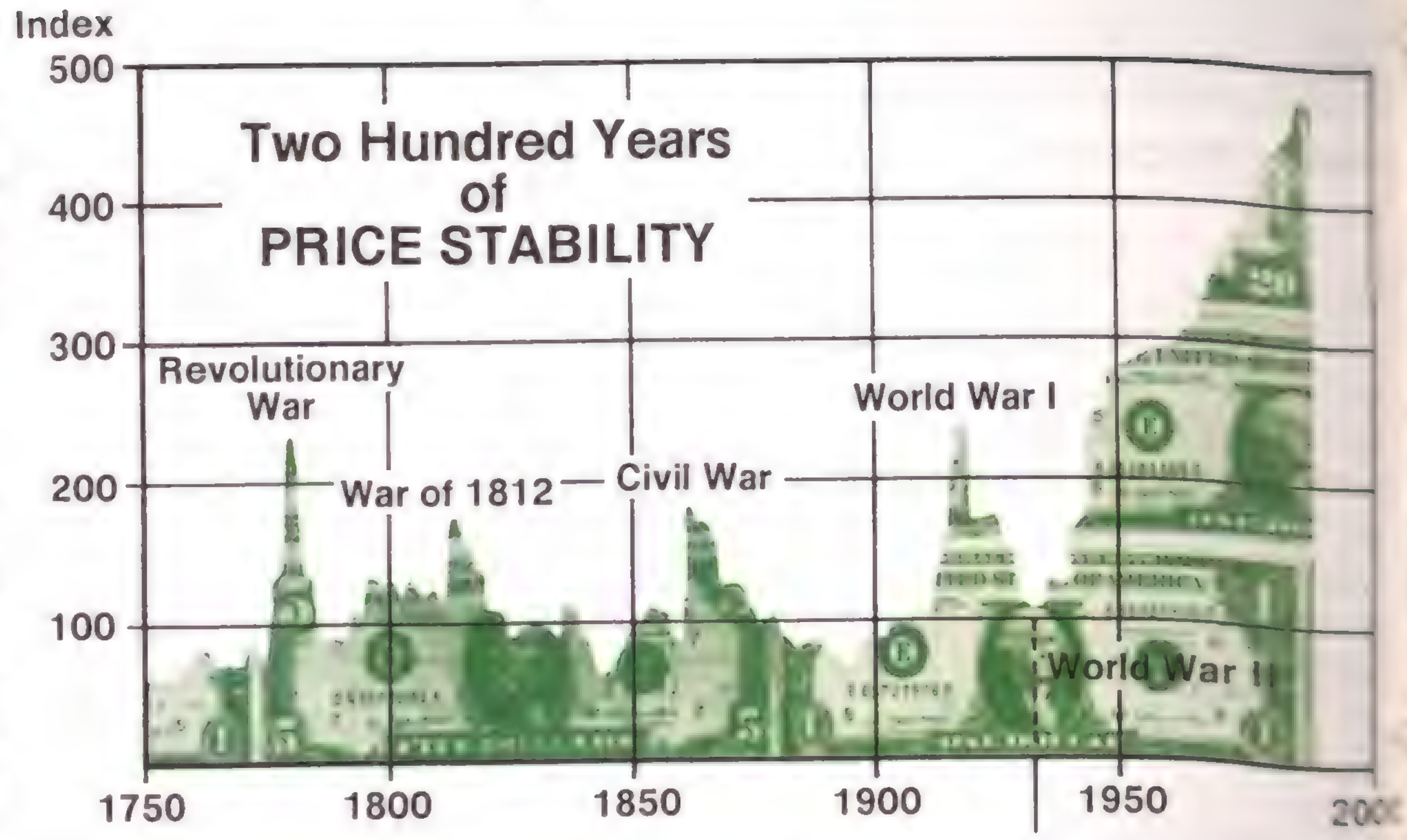
Reprinted with permission from "Perspective On National Issues", a publication of the National Association of Manufacturers

"Federal Finances" chart on page 50, increased 4.6 times while the gross national product (GNP) grew only 3.6 times. In 1960 federal spending totaled $92.2 billion, a sum equal to 18.5 percent of the GNP, compared with more than $500 billion in 1979 amounting to 21.6 percent of the GNP.

- Spending at all levels of government increased from $136 billion in 1960 to over $700 billion in 1979.
- Over the past 30 years federal deficits totaled $462.1 billion in current dollars; surpluses totaled $17.5 billion. Since 1960 the federal budget has shown a surplus only twice—$0.3 billion in 1960 and $3.2 billion in 1969.
- About 40 percent of federal debt, close to $300 billion, occurred in just five years, from 1975 to 1979. This was true despite the fact that, except for 1975, these years were generally times of economic expansion.
- The 1979 national debt tops $839 billion, a sum equal to $3,822 for every man, woman and child in the U.S. Interest on the debt is projected at $57 billion each year, $260 per capita. Interest payments have become the third largest item in the budget. The U.S. government spends more on interest than on education, training, employment, social services, transportation and energy combined.

In addition to direct budgeted expenditures, the federal government controls additional funds through the regulatory process. In 1976 the Office of Management and Budget estimated that regulations cost the American economy $130 billion each year, 8.1 percent of the GNP. One expert suggests the yearly cost of regulations now stands at $150 billion. If state and local spending are included, governments at all levels account for over half (52 percent) of the national income.

Basic economic analysis suggests that high levels of government spending, including the costs of complying with regulations, are likely to cause a shortage of funds. Since government has what amounts to "first call" on the nation's monetary resources, the private and quasi-private sectors of the economy are affected by government growth in a variety of ways.



Source: Claremont Economic Institute *Forecast Update*, May 10,1979

Inflation. Federal deficits must be financed. One way the government obtains money when spending exceeds income is by literally creating dollars—increasing the money supply or selling government securities. This practice is thought by many experts to be the major cause of inflation.

Consider the game of Monopoly. If one player could leave the room and return with a basket of newly printed "money," that player could bid higher and higher and cause the selling price of all of the game's real estate to rise.

In the opinion of Arthur F. Burns, former chairman of the board of governors of the Federal Reserve System:

"When a government persistently runs deficits, it keeps pumping more money into the [economy] . . . That, unhappily, is the way a serious inflation is typically started and later nourished."

As the chart on page 48 clearly shows, prices in the U.S. remained relatively stable for close to 200 years. It is only recently that inflation has decreased the dollar's value, during a period marked by tremendous increases in government spending and deficits. Yale Brozen, professor of business economics at the University of Chicago's Graduate School of Business, states emphatically, "The major action required to stop inflation is to decrease government spending."

Slower economic growth. Not only does inflation affect prices, it discourages saving by lowering the value of money saved. The U.S. savings rate is under that of any industrial nation in the world except Great Britain.

This lack of savings decreases the money available for new construction, research and development, upgrading of plants and equipment and general business development. Failure to modernize and expand lowers productivity gains.

Investment monies are also reduced because government finances part of its spending through borrowing. Government borrowing "crowds out" private investors and leaves less money for the producing sectors of society.

Large government spending programs also affect productivity through inefficiency. According to David Smith, National Westminister Bank of England, each five-point increase in disposable personal income taken by government tends to lower national growth by one point. This is because governments often waste resources since their activities are not subject to the competition of the free marketplace.

Decline of the dollar abroad. Federal deficits and inflation are major factors in the decline of the dollar in relation to other currencies. Over 20 percent of the U.S. national debt is in foreign hands. Interest payments on this debt contribute to U.S. imbalance of payments.

How government grows. Efforts to control government growth are not a recent phenomenon. Between 1884 and 1912, for example, the nation experienced a series of deficits due to increased spending for the Panama Canal, the Spanish-American War and public works projects. Congressional response to these deficits was a series of budgetary and management reforms.

In 1893 Congress set up the Dockery Commission to examine management practices. In 1897 the Cockrell Committee recommended changes in the accounting and apportionment systems. In 1910 President Taft created a Commission on Economy and Efficiency.

In the face of deficits resulting from expenditures during World War I, Congress passed the Victory Liberty Loan Act of 1919 establishing a sinking fund for debt retirement. As indicated earlier, between 1920 and 1930 the national debt was actually reduced by $8.1 billion. The Great Depression again led to deficit spending. From 1931 to 1940 deficits averaged $2 billion to $4 billion a year.

Since the depression, members of Congress have shown increasing interest in controlling federal finances. Legislation to restrict expenditures has been introduced in every session of Congress since the 84th—1955-56.

Cost/benefit analysis of specific federal spending programs has been tried. Cuts in specific low-priority programs have been proposed. For many years, Congress has put a ceiling on the national debt. But each time the limit is reached, Congress raises the ceiling.

The Congressional Budget and Impoundment Control Act of 1974 established a new budget appropriations process. This act provided for budget committees within each chamber. It created the Congressional Budget Office as an information agency for Congress and developed a budgetary timetable. The purpose of these actions was to curb federal spending. Such initiatives have had little effect on government spending. The national debt and the level of federal spending continue to grow faster than the economy which supports it.

Because of the almost continuous growth of government spending and deficits, the public strongly favors fiscal controls. According to a recent Gallup poll, 80 percent of the people think government should be forced to balance its budget. Of those surveyed in a *Times*-CBS poll, 73 percent supported controls on government spending. Among persons identifying themselves as liberals or conservatives, 77 percent of the liberals and 78 percent of the conservatives favored restricting government spending, as did 72 percent of the Republicans and 74 percent of the Democrats.

Yet, spending and deficits continue to increase.

It has already been suggested that, historically, revenues were estimated before spending levels were established. Conventional wisdom dictated balanced budgets. Dr. Alvin Rabushka of the Hoover Institute at Stanford, explained this concept in testimony printed in the *Congressional Record*, March 8, 1979:

"Throughout most of our history, . . . it was generally believed that public expenditures should be fit to available public revenues, and that revenues should not be extended to fit expenditures. Moreover, public debt was regarded as undesirable, a thing to be reduced and eliminated if possible. The guiding principle was that government should aim to be self-supporting."

In reality, there is no constitutional limit on how much of the nation's income the federal government can take; or spend. Rabushka continues:

"In the 20th century, spending decisions have become increasingly divorced from constraints of revenue. The government now determines its spending priorities, and then instructs the Treasury to get, by taxation or borrowing, whatever funds are necessary to cover the outlays."

A number of respected economists and political scientists suggest that this situation reflects a basic flaw in America's political and constitutional system. Says Nobel laureate economist Milton Friedman:

"The fundamental defect is that we have no means whereby the public at large ever gets to vote on the total budget of the government.

"Our system is one in which each particular spending measure is treated separately. For any single spending measure, therefore, there is always a small group that has a very strong interest in the measure."

While the number of people who benefit from special programs is frequently limited, the costs of programs are spread throughout the entire population. As Arthur Burns observes:

"The potential beneficiaries of a spending program are often a numerical minority, but they have a stronger incentive to keep informed, to organize, and to lobby for their favorite program than those who bear the cost have to oppose it."

Spending programs breed their own effective political constituencies. Voters who benefit from particular programs have an economic incentive to preserve and expand spending. On the other hand, the saving to individual taxpayers from eliminating a single program is small—often $2 or $3 a year.

Furthermore, a majority of the programs seem worthwhile. As Friedman notes, there is an "infinite number of good and desirable proposals," but the total cost is never added up.

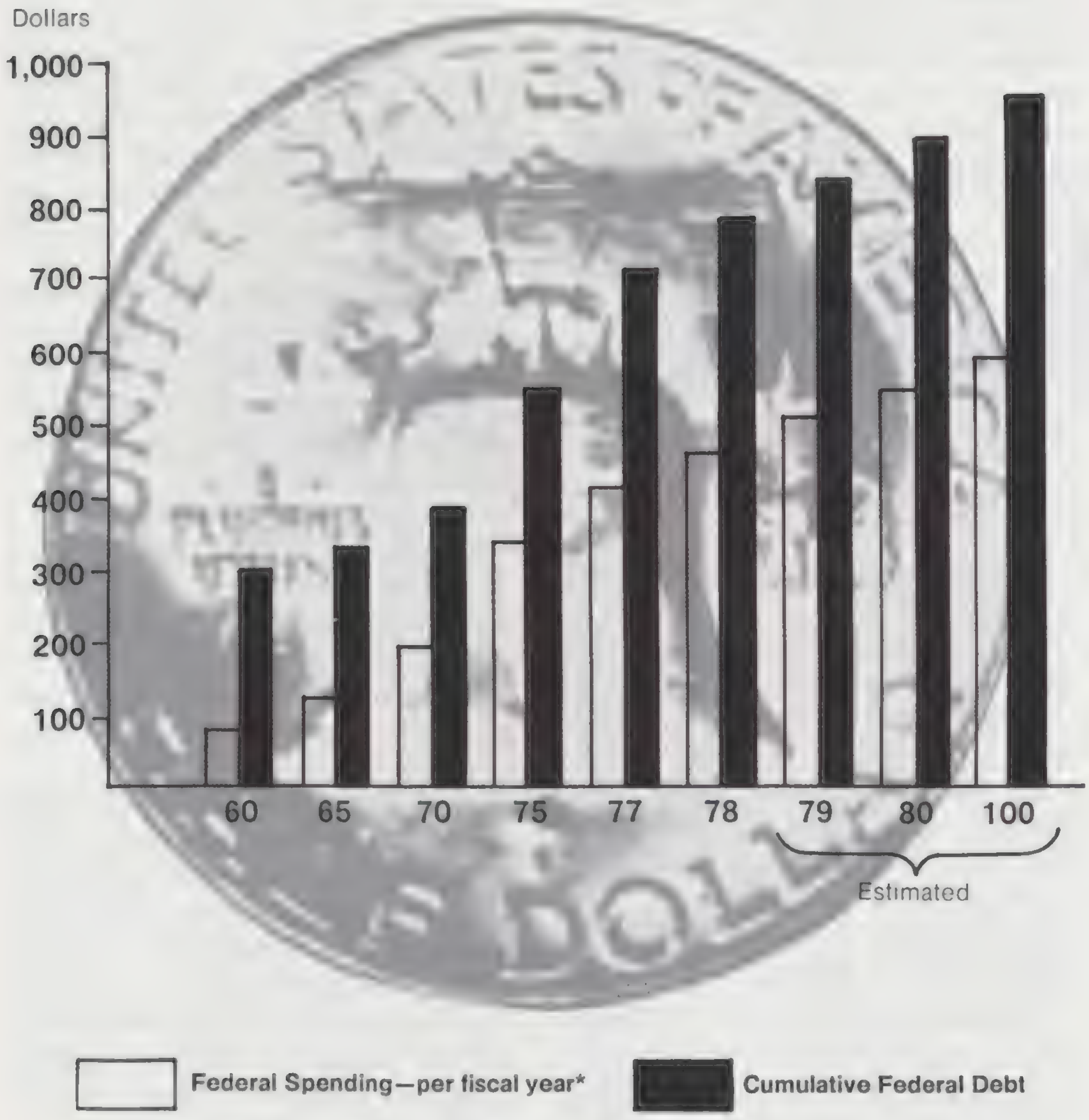
This situation is compounded because legislators, in order to be reelected, frequently vote on the basis of constituency pressures rather than on the merits of a bill. As Professor Neil H. Jacoby, Graduate School of Management at UCLA, explains:

"Our political representatives naturally satisfy the strong demands of small special interest groups for spending programs that benefit them greatly, because their demands are only weakly opposed by the majority who benefit little, if at all, or who pay the bills. The payoff to the politician of meeting the demands of the strong minority outweighs the political costs he incurs by flouting the will of the weak majority."

FEDERAL FINANCES

(in billions of dollars)

Source: U.S. Budget-FY80



*Includes off-budget outlays

This combination of political reality and economics helps explain why efforts to slow the growth of government have lacked the political muscle necessary to control government spending.

A Scottish historian foresaw this problem nearly 200 years ago. In 1801 Alexander Tytler wrote:

"A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largesse from the public treasury. From that moment on, the majority always votes for the candidate promising them the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship."

It is interesting to note that in 1971, the federal government's expenditures for transfer payments and grants-in-aid to state and local governments exceeded, for the first time, government spending for direct services such as defense and park and highway maintenance.

Put another way, in 1971 the government's predominant activity became the transfer of money and wealth from one group or institution to another. In 1977, the latest year for which full Commerce Department figures are available, 53.3 percent of all U.S. citizens depended on government at some level for a significant part of their income.

Restoring fiscal responsibility. Attempts to regulate federal spending by establishing debt ceilings, abolishing out-dated programs, cost/benefit analysis of existing programs or through other budgetary methods have obviously not worked. Friedman charges such measures have failed because they concentrate on the wrong problem—on reducing deficits rather than on controlling spending. Current proposals r... resent efforts to put a lid on spe... ing.

Before analyzing specific re... ommendations, it is useful t... understand what methods a... available under America's co... stitutional form of government t... implement fiscal controls. The... are two basic methods: legislati... or an amendment to the Constitu... tion. The Constitution, in tur... can be amended in two ways: Congress can call a constitution... convention to consider ideas f... incorporating fiscal controls in... the Constitution; or, Congress it... self can propose an amendment.

As pointed out earlier, efforts t... control spending through legisl... tion have achieved only limite... success. In the case of debt cei... ings, for example, Congress h... simply passed new laws to a... commodate spending increases.

While approximately 30 sta... have formally asked Congress t... order a constitutional conventio... to consider balanced budget pr... posals, many experts fear th... method. This is because there... considerable disagreement amo... constitutional lawyers as t... whether or not a convention c... be limited to a single issue. If n... it is possible that a conventi... could, in effect, rewrite the ent... constitution. Robert H. Bork, pr... fessor of public law at Yale U... versity Law School, maintains... constitutional convention ou... to be the last resort of a found... ing nation, not the casual pract... of a successful one."

Because both legislation and constitutional convention seem... have serious drawbacks, many e... perts favor an amendment b... Congress. Such an amendme... would, of course, require ratific... tion by the states.

Recommendations to lim... growth of the federal governme... are generally of two kinds. O... approach focuses on balancing t... nation's budget. A second ess... tially pegs federal spending to t... size of the gross national produ... It is important to remember th... these proposals do not gener... eliminate existing programs or... duce government spending fr... its present levels. Rather, they a... aimed at preventing further in... creases in the proportion of the...

tional income controlled by the federal government.

The balanced budget approach. Approximately 50 joint resolutions to amend the Constitution and require a balanced budget were introduced during 1979. There are four key points to most of these resolutions:

• A requirement that the budget be balanced. The most straightforward proposals read, "The Congress shall assure that the total outlays of the government during any fiscal year do not exceed the total receipts of the government during such fiscal year."

• National debt retirement. Some, but not all, of the proposals include provisions to retire a specific percent, most often 5 percent, of the national debt each year.

• A method of dealing with national emergencies. The general plan is that a vote of two-thirds or three-fourths of both houses would be required to escape the balanced budget requirement.

• Length of time for ratification by states. Proposals vary from three to seven years.

Those who support balanced budget proposals do so in an effort to control inflation and reduce government growth. The concept of a balanced budget is easily understandable and has considerable popular appeal. Critics of this idea fear that simply balancing the budget does not get to the heart of the problem in that it does not put a ceiling on spending. While it requires that spending be offset by income, it does not prevent the federal government from raising taxes and taking an increasing share of the nation's wealth.

Balanced budgets are mandated in 36 state constitutions. Yet, state spending has grown at a rapid rate.

The spending limitation approach. Many economists and political scientists suggest that a more effective way to curb government growth is by a limitation on spending. This approach, of which the Heinz-Stone amendment is an example, generally includes four provisions:

• A limit on government spending. Increases in government spending are tied to increases in the gross national product. The federal government would not be allowed to enlarge its share of the GNP.

• Debt retirement. Any budget surpluses must be used to reduce the public debt.

• Provision for national emergencies. A special provision allows the President to declare an emergency and request a specific amount of additional funds for that year. Both houses of Congress must approve the request by a two-thirds vote. A request for permanent increases is allowed, but requires the approval of three-fourths of both houses.

• Protection for state and local governments. State and local governments are guaranteed their current share of federal funds for a specific number of years. The federal government is prohibited from imposing any costs on state and local governments without providing compensation.

Legislative initiatives. As already discussed, there is considerable doubt about the long-term effectiveness of legislation to control government spending. Because of the time required by the amendment process, however, a number of legislative proposals have been offered that can take effect immediately. Typical of these is an amendment to the Congressional Budget Act of 1974 offered by Rep. Jim Jones (D-Okla.). The Jones amendment would hold federal spending to 21 percent of the estimated gross national product during fiscal year 1980, and 20 percent in succeeding years. This would reduce government's share of the GNP from its current level of 21.6 percent to a more historical 20 percent level.

Points to consider. The concept of limiting government growth through specific amendments or legislation has encouraged discussion of several key issues.

Are limitations necessary? Those who question the need to restrict government growth maintain that spending, as a percentage of the gross national product, is not excessive. Advocates of controls point out that since the early 1960s government's share of the GNP has expanded from 19 percent to 22 percent. This translates into an increase of 15 percent in the growth of the federal government over and above the growth of the economy. In terms of real dollars, federal spending during this period has almost doubled.

Will spending limitations reduce the flexibility of government to react in emergencies? A majority of proposals to require balanced budgets and impose spending limitations include provisions for emergencies—such as recessions or armed conflicts.

Jacoby addressed this concern in a statement before the California State Assembly Ways and Means Committee in February 1979. Said Jacoby:

"The social costs of a modest reduction in fiscal flexibility will be far more than offset by the social benefits of a more efficient and more responsibly managed federal government. A heavy blow will be struck against inflation. World confidence in the dollar will revive. The U.S. balance of trade and payments would begin to improve."

How will spending limitations affect the poor? Many fear that if Congress is forced to choose among competing demands for funds, the poor, especially those on welfare, will suffer. This charge assumes that American society places a low priority on social assistance. A survey of expenditures in these areas suggests this is not the case.

Federal spending for social programs such as food stamps, child nutrition, social security and unemployment insurance increased from 21.9 percent of total outlays in 1970 to 33.7 percent for fiscal 1980. During the same period, outlays for health care increased from 6.6 percent to 10 percent. Defense spending, on the other hand, dropped from 40 percent in 1970 to 23.7 percent of the federal budget in fiscal 1980. It seems evident that social programs, including welfare, are not low-priority items for American society.

Clearly a national debate on fiscal responsibility is underway. Will the majority ultimately favor an expanded role for government in society? Or will the nation reaffirm its historical belief in the private sector? The resolution of this debate is likely to influence the orientation of public policy decisions for many years. Æ

HEADING FOR HOUSTON and TRX-80

The American Truck Dealers Division will hold its 17th annual convention and exposition—TRX-80—at the Shamrock Hilton in Houston, Texas, April 12-15. Franchised truck dealers from across the U.S. will be attending as well as contingents from Canada and Mexico.

With this year's theme, "Shooting for the Stars," TRX-80's East Texas location, indeed, will be a fitting site for the event. Houston has been the hub of astro-activity since America's entry into the manned space flight program. Even now, work there is progessing rapidly on our next great adventure outside the confines of earth: the space shuttle.

TRX convention-goers will find clear testimony to Houston's ties to space during leisure-time hours following general sessions, workshop seminars, make meetings and social activities. One such attraction is the Lyndon B. Johnson Manned Spacecraft Center which offers the public free daily tou
Here visitors will be treated to di
plays of history-making spac
craft, moon rocks, space food a
other items associated wi
America's manned exploration
space. Facilities used to test a
train astronauts are also at MS
and may be visited during tours

Even Houston's best know
playgrounds and shopping cent
bear the space imprint as ev
denced by Astrodomain—ho
ground for the Astrodome sp

arena and Astroworld amusement park—and the futuristic Galleria shopping mall.

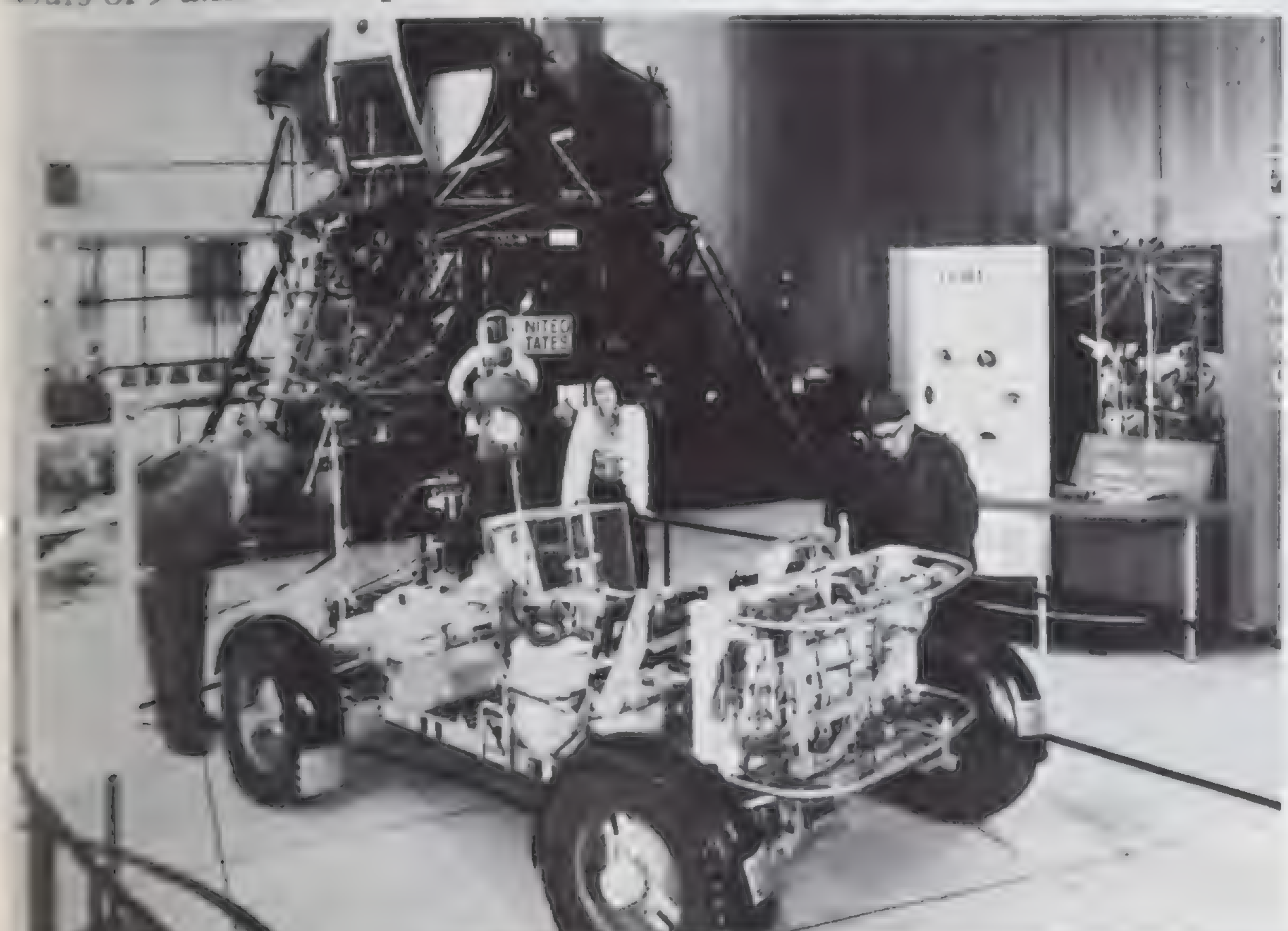
The Galleria is a unique shopping plaza that is becoming known worldwide. This three-level mall is capped by a vaulted skylight that forms an atrium 12 stories high between twin office towers. Glass elevators rise in the center, creating access to a spectacular view. Within the mall are numerous restaurants, movie theaters, boutiques, art galleries, department stores, a hotel and assorted entertainment establishments. A shopping shuttle will run from the Shamrock Hilton to the Galleria mall on Saturday (April 12) and Tuesday (April 15) between the hours of 9 a.m. and 2 p.m.

But not all of Houston's attractions are aimed at space and the future. Key points such as Sam Houston Park and San Jacinto Battleground are tributes to the area's rich heritage.

Sam Houston Park is the location of many restored historic buildings. Tours of the park visit landmarks such as the Kellum-Noble House and a number of homes on the National Register. The San Jacinto Battleground is the site of a museum of Texas history and San Jacinto Monument, the world's largest monumental column, a 578-foot structure featuring an observation deck.

Other attractions that may interest TRX attendees include: Aline McAshan botanical hall gardens and arboretum; Allen's Landing Park, the site upon which Houston was founded more than 140 years ago; the Anheuser-Busch brewery which offers free tours—and samples of its wares—each day; the battleship Texas, permanently moored at the San Jacinto Battleground; Burke Baker Planetarium featuring one of the largest astronomical projectors of its kind in the nation, showing the wonders of the universe and spectacular celestial shows; the Museum of Fine Arts; Museum of Natural Science; the Houston Zoo in Hermann Park; the Weatherby Arms Museum showcasing weapons and armor dating from the Middle Ages to the present; and the Classic Car Showcase and Wax Museum where great automotive models (Duesenbergs, Isotta Fraschinis, Bentleys, etc.) are housed under the same roof as lifelike wax figures of movie greats.

In addition to these attractions, conventioneers will find Houston offers a varied and expansive list of night-time activity. The area is alive with renowned restaurants and supper clubs, theaters and entertainment centers. All will be at the fingertips of those attending TRX-80 in April.



Tours of the Lyndon B. Johnson Manned Spacecraft Center feature displays of "moon vehicles" used by astronauts (left) and the mission control center.

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Showcase

WHAT'S NEW ON THE MARKET

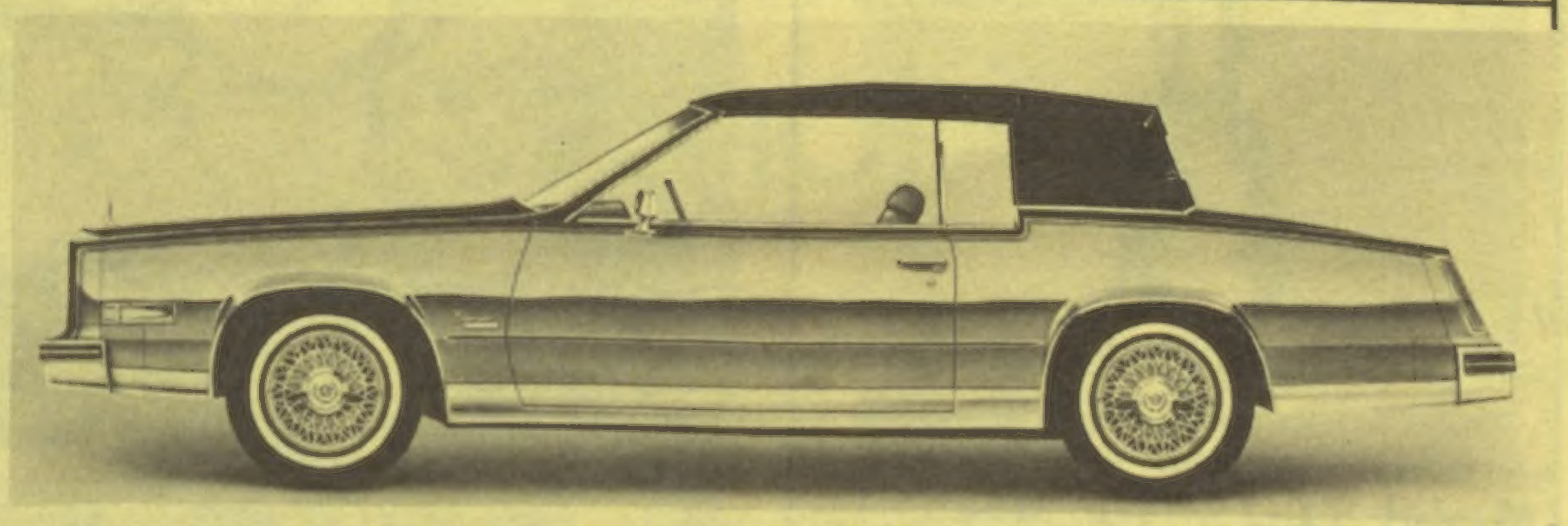
The **SNUGTOP Tonneau Cover** is a fiberglass cover for pickup trucks. Attractive, strong and watertight, it can be installed in less than 30 minutes and removed by releasing two cotter pins. The cover is secured with deadbolts and activated by a keyed T-handle lock. Gas shock-type lift arms assure smooth, trouble-free, controlled opening and closing. Manufacturer: Custom Hardtops, P.O. Box 121, Long Beach, Calif. 90801.

The **Universal Suspension Alignment Kit** repairs and gauges newer strut-type front suspensions. It includes a multi-adaptable strut pulling plate, which features a variety of bolting and holding slot patterns. With extension legs, it can fit most U.S. and foreign strut-type automobile suspensions. There is also a camber/caster gauge for front-end alignment checks during repairs. Manufacturer: Chief Automotive Systems, Box 1368, Grand Island, Neb. 68801.

More Showcase on Page 56

A complete line of low-cost **canopies** is designed to protect spray paint booths from the elements. Made of galvanized, heavy-gauge steel, they are available in a wide range of sizes. The canopies also are excellent for work areas, vehicle parking, and outdoor storage areas. Manufacturer: Econo Booth Industries, Inc. 16520 Gale Ave., City of Industry, Calif. 91744.

KREX Graphite Super Lubricant is a low-cost concentrate, added to the crankcase oil with every oil change. Its high film strength results in longer engine life, fewer break-downs, smoother operation, less friction, and therefore, better gas mileage—adding up to bigger dealer benefits and profits. Manufacturer: KREX, Inc., 89 Lincolnwood, P.O. Box 836, Highland Park, Ill. 60035.



A **Cadillac Eldorado convertible** with the elegant straight roof line of the coupe is completely reinforced and electro-hydraulically operated. The top is made of durable, but luxurious canvas and is color-coordinated with the interior. It is secured by strong and easily operated chrome-plated locks and provides one inch more headroom than the standard Eldorado. A defogger system is also incorporated into a glass rear window. Manufacturer: Hess & Eisenhardt Co., Blue Ash Rd., Cincinnati, Ohio 45242.

Information and photographs of products listed in Showcase *have been provided via manufacturer's press releases. A product's appearance in this column in no way implies endorsement by either NADA, the National Automobile Dealers Service Corp., or* **automotive executive** *magazine.*

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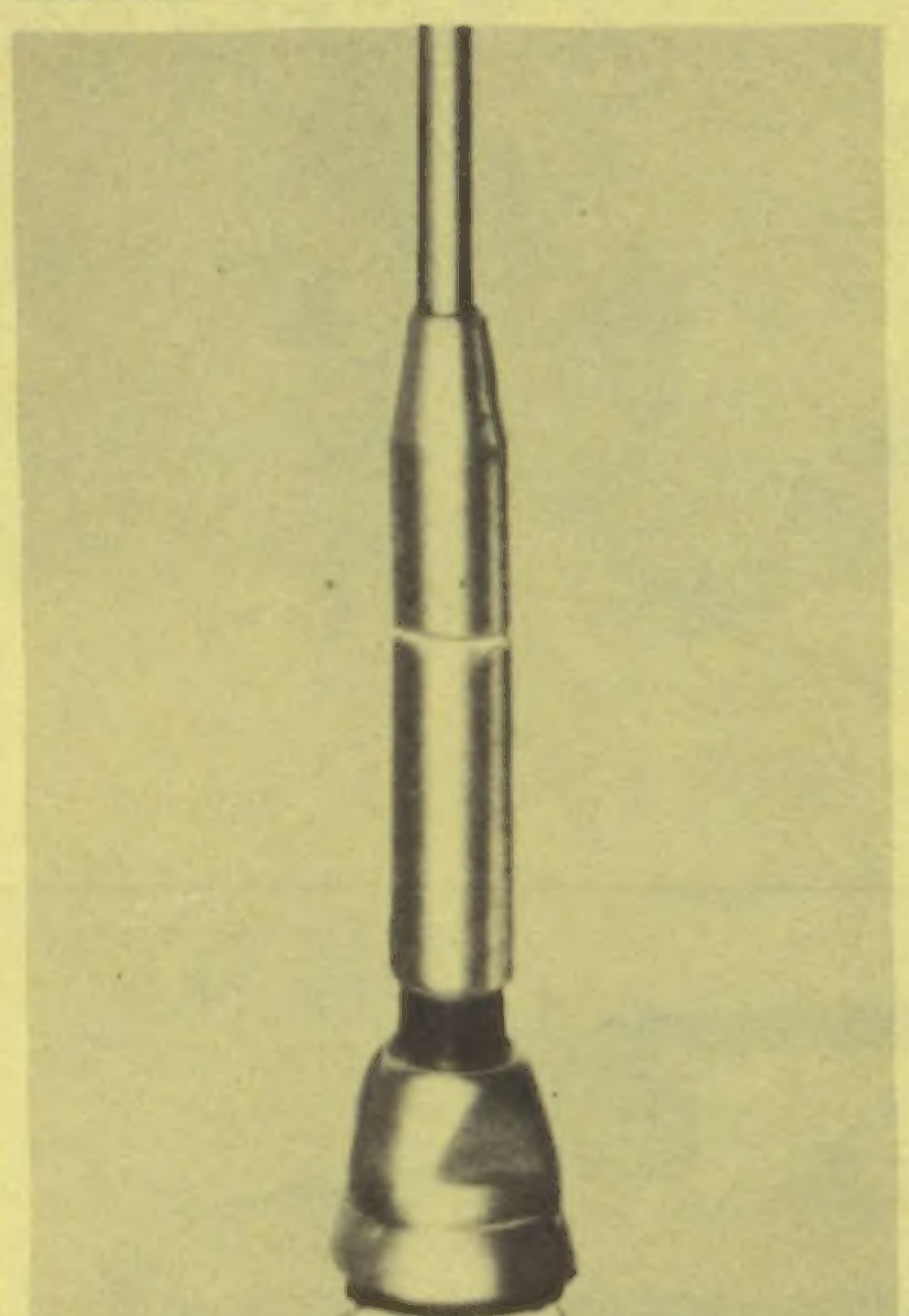
The **"Electrek"**™ is an electric car which is ideal for metropolitan travel. It goes from 0 to 30 mph in nine seconds, has a top speed of 75 mph, and a cruising range of 100 miles. Available in a stylish 2+2 sedan or a two-seat hatchback, it is now available for sale by conventional dealers. Operating costs are about 1¢ per mile and to recharge, it is plugged into any 110 volt outlet. Manufacturer: Unique Mobility, 3730 S. Jason, Englewood, Colo. 80110.

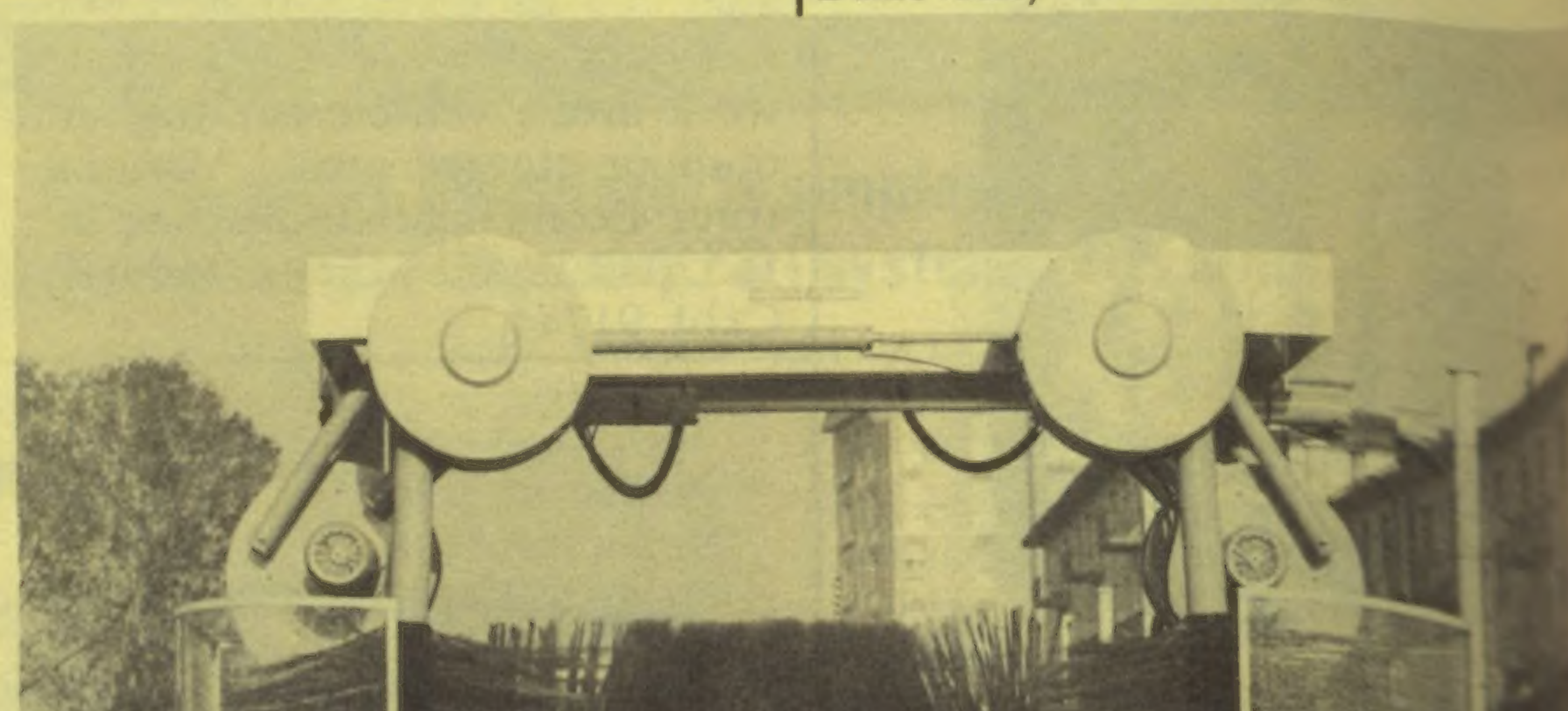
"Superwashers" floor merchandising displays help increase impulse sales dramatically. Each display includes a stand and a colorful, easy-to-read sign. Cartons containing merchandise fit right into the displays for easy set-up. Manufacturer: Ohio Wiping Cloth Mfg. Co., Atlas Textiles Div., 1719 E. 39th St., Cleveland, Ohio 44114.



Model TL-15 is a manually-operated triway antenna (AM/FM/CB) designed to fit GM and narrow-fender cars. The custom topmount antenna has a 72-inch cable and a single 42-inch mast, and its top-loaded whip is easily removed to guard against theft. Manufacturer: Harada Industry of America, Inc., Dept. P, 1900 W. Artesia Blvd., Compton, Calif. 90220.

The **Hi Density Storage Module** saves space and increases inventory control by mixing shelves and small parts drawers in a single unit. Shelves adjust easily by sliding them in and out. Since units are totally compatible, additional modules can be added as well as a second or third level. Manufacturer: SPS Technologies, Hallowell Div., Township Line and Richmond Rds., Hatfield, Pa. 19440.

The **"Venus" model WD 230** automatic car and van washer/dryer unit features a contour sensing brush for bumper-to-bumper washing and swing action side brushes, providing superb washing on wheel and rocker panel areas. Low noise level, high efficiency blow dryers complete the detailed operation. Manufacturer: TAM AM, Inc., 43406 I-94 Service Rd., Belleville, Mich. 48111.



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